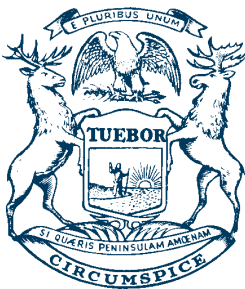




# MICHIGAN

OFFICE OF THE AUDITOR GENERAL

## AUDIT REPORT



THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

– Article IV, Section 53 of the Michigan Constitution

Audit report information can be accessed at:

*<http://audgen.michigan.gov>*



# Michigan *Office of the Auditor General* **REPORT SUMMARY**

## *Financial Audit*

### *Michigan Finance Authority*

*(A Discretely Presented Component Unit of the State of Michigan)*

*October 1, 2011 through September 30, 2012*

Report Number:  
271-0340-13

Released:  
January 2013

*A financial audit determines if the financial statements are fairly presented; considers internal control over financial reporting; and determines compliance with requirements material to the financial statements. This financial audit of the Michigan Finance Authority was conducted as part of the constitutional responsibility of the Office of the Auditor General.*

#### ***Financial Statements:***

##### **Auditor's Report Issued**

We issued unqualified opinions on the Michigan Finance Authority's financial statements.

~ ~ ~ ~ ~

##### **Internal Control Over Financial Reporting**

We did not report any findings related to internal control over financial reporting.

~ ~ ~ ~ ~

##### **Noncompliance and Other Matters**

##### **Material to the Financial Statements**

We did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under *Government Auditing Standards*.

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#### ***Background:***

The Michigan Finance Authority (the Authority) is a discretely presented component unit of the State of Michigan that consolidated certain public finance authorities in Michigan in accordance with Executive Order No. 2010-2, effective May 30, 2010. The Authority combined the operations of 10 different public finance authorities (Michigan Forest Finance Authority, Michigan Higher Education Assistance Authority, Michigan Higher Education Facilities Authority, Michigan Higher Education Student Loan Authority, Michigan Municipal Bond Authority, Michigan Public Educational Facilities Authority, Michigan State Hospital Finance Authority, Michigan Tobacco Settlement Finance Authority, Michigan Underground Storage Tank Financial Assurance

Authority, and State Higher Education Facilities Commission). In addition, the authorization to finance the facilities of public and private schools formerly under the Michigan Strategic Fund and to issue bonds and notes on behalf of the State Land Bank Fast Track Authority was transferred to the Authority.

The Authority offers financing to public and private agencies providing essential services to the citizens of the State of Michigan, including municipalities; healthcare providers; higher education; and public, private, and charter schools.

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A copy of the full report can be  
obtained by calling 517.334.8050  
or by visiting our Web site at:  
<http://audgen.michigan.gov>



Michigan Office of the Auditor General  
201 N. Washington Square  
Lansing, Michigan 48913

**Thomas H. McTavish, C.P.A.**  
Auditor General

**Scott M. Strong, C.P.A., C.I.A.**  
Deputy Auditor General



STATE OF MICHIGAN  
OFFICE OF THE AUDITOR GENERAL  
201 N. WASHINGTON SQUARE  
LANSING, MICHIGAN 48913  
(517) 334-8050  
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THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

January 11, 2013

Mr. Andy Dillon, State Treasurer and Chair  
Michigan Finance Authority Board of Directors  
Richard H. Austin Building  
Lansing, Michigan

Dear Mr. Dillon:

This is our report on the financial audit of the Michigan Finance Authority, a discretely presented component unit of the State of Michigan, for the period October 1, 2011 through September 30, 2012.

This report contains our report summary, our independent auditor's report on the financial statements, the Authority management's discussion and analysis, the Authority's basic financial statements, the Authority's required supplementary information, and the Authority's supplemental financial statements and supplemental financial schedules. This report also contains our independent auditor's report on internal control over financial reporting and on compliance and other matters and a glossary of acronyms and terms.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

A handwritten signature in black ink that reads "Thomas H. McTavish".

Thomas H. McTavish, C.P.A.  
Auditor General



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# INDEPENDENT AUDITOR'S REPORT



STATE OF MICHIGAN  
OFFICE OF THE AUDITOR GENERAL  
201 N. WASHINGTON SQUARE  
LANSING, MICHIGAN 48913  
(517) 334-8050  
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

Independent Auditor's Report on  
the Financial Statements

Mr. Andy Dillon, State Treasurer and Chair  
Michigan Finance Authority Board of Directors  
Richard H. Austin Building  
Lansing, Michigan

Dear Mr. Dillon:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Michigan Finance Authority, a discretely presented component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2012, which collectively comprise the Michigan Finance Authority's basic financial statements as identified in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, the financial statements present only the Michigan Finance Authority and do not purport to, and do not, present fairly the financial position of the State of Michigan or its component units as of September 30, 2012, and the changes in its financial position, or, where applicable, its cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

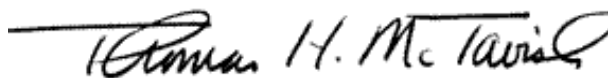
In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Michigan Finance Authority as of September 30, 2012 and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2013 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 13 through 21 and the budgetary comparison schedules and corresponding note on pages 84 through 86 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplemental financial statements and supplemental financial schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The accompanying supplemental financial statements and supplemental financial schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplemental financial statements and supplemental financial schedules are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Sincerely,

A handwritten signature in black ink, appearing to read "Thomas H. McTavish".

Thomas H. McTavish, C.P.A.  
Auditor General  
January 8, 2013

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is management's discussion and analysis of the Michigan Finance Authority's (the Authority's) financial performance, providing an overview of the activities for the fiscal year ended September 30, 2012. Please read it with the Authority's financial statements, which follow this section.

## **HIGHLIGHTS**

- The Authority is a discretely presented component unit of the State of Michigan that consolidated certain public finance authorities in Michigan in accordance with Executive Order No. 2010-2, effective May 30, 2010. The Authority combined the operations of 10 different public finance authorities (Michigan Forest Finance Authority, Michigan Higher Education Assistance Authority, Michigan Higher Education Facilities Authority, Michigan Higher Education Student Loan Authority, Michigan Municipal Bond Authority, Michigan Public Educational Facilities Authority, Michigan State Hospital Finance Authority, Michigan Tobacco Settlement Finance Authority, Michigan Underground Storage Tank Financial Assurance Authority, and State Higher Education Facilities Commission). In addition, the authorization to finance the facilities of public and private schools formerly under the Michigan Strategic Fund and to issue bonds and notes on behalf of the State Land Bank Fast Track Authority was transferred to the Authority.
- During the fiscal year ended September 30, 2012, the Authority issued new and refunding debt of \$9,079.0 million, of which \$963.1 million was conduit financing for eligible borrowers and therefore was not recorded as debt of the Authority.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is an introduction to the Authority's basic financial statements, which are comprised of four components: 1) government-wide financial statements, 2) governmental and proprietary fund financial statements, 3) fiduciary fund financial statements, and 4) notes to the financial statements.

### **Government-Wide Financial Statements**

The statement of net assets and the statement of activities report information on all non-fiduciary activities of the Authority using the accrual basis of accounting. Authority activities are distinguished between governmental and business-type activities. The current fiscal year's revenues and expenses are taken into account regardless of when cash is received or paid.

The statement of net assets presents the Authority's assets and liabilities, with the difference reported as net assets. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues.

Both statements report two activities:

- *Governmental Activities* - The statements report information on all non-fiduciary and non-business-type activities of the Authority. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.
- *Business-Type Activities* - The Authority charges fees to customers to help it cover the cost of services it provides. Program revenues include charges to users who directly benefit from the services and grants and contributions that are restricted to meeting the requirements of a function.

### **Fund Financial Statements**

The fund financial statements provide detailed information about the major individual funds and supplemental information about non-major funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Authority uses to keep track of specific sources of funding and spending for a particular purpose. The Authority's funds are divided into three categories (governmental, proprietary, and fiduciary) and use different accounting approaches:

- *Governmental Funds* - The Authority's major governmental funds include the General Fund, the Tobacco Settlement Debt Service Fund, and the Unemployment Obligation Assessment Debt Service Fund. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash.
- *Proprietary Funds* - The Authority's major proprietary funds include the Municipal Bond Fund and the Student Loan Fund. These funds are reported using full accrual accounting, which provides short-term and long-term financial information about the activities of the Authority.

- *Fiduciary Fund* - The Authority's fiduciary fund is the Michigan Guaranty Agency Federal Fund that is used to account for funds received from various sources and held by the Authority on behalf of the U.S. Department of Education (USDOE). These funds are reported using accrual accounting. The government-wide statements exclude fiduciary fund activities and balances because these assets are restricted in purpose and do not represent discretionary assets of the Authority to finance its operations.

### **Additional Required Supplementary Information**

Following the basic financial statements is additional required supplementary information that further explains and supports the information in the Authority's General Fund financial statements. The required supplementary information includes budgetary comparison schedules reconciling the statutory and generally accepted accounting principles fund balances at fiscal year-end.

### **Other Supplemental Information**

Other supplemental information includes combining financial statements and schedules for non-major proprietary funds and subfunds of major proprietary funds. These funds are added together, by fund type, and presented in single columns in the basic financial statements, but are not reported individually, as with major funds, on the proprietary fund financial statements.

### **FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE**

The Authority's combined net assets decreased \$2,735.0 million (157.0%) over the course of fiscal year 2011-12 operations. The net deficit of the governmental activities increased \$3,090.9 million (326.4%) primarily from payments to the Department of Licensing and Regulatory Affairs (LARA) for the unemployment obligation assessment

bond proceeds. Business-type activities net assets had an increase of \$355.9 million (13.2%) during fiscal year 2011-12.

Statement of Net Assets

As of September 30

(In Millions)

	Governmental Activities		Business-Type Activities		Total Authority	
	2012	2011	2012	2011	2012	2011
Total assets	\$ 408.4	\$ 161.2	\$9,477.3	\$9,577.7	\$ 9,885.6	\$ 9,738.9
Total liabilities	\$ 4,446.0	\$ 1,107.9	\$6,432.2	\$6,888.5	\$10,878.2	\$ 7,996.5
Net assets:						
Unrestricted	\$ (4,037.6)	\$ (946.8)	\$ 155.1	\$ 129.5	\$ (3,882.6)	\$ (817.3)
Restricted	0.0	0.0	2,890.0	2,559.7	2,890.0	2,559.7
Total net assets	\$ (4,037.6)	\$ (946.8)	\$3,045.1	\$2,689.2	\$ (992.6)	\$ 1,742.4

The Authority's total assets increased by \$146.8 million (1.5%) during fiscal year 2011-12. The business-type activities total assets decreased by \$100.4 million (1.0%) primarily from activity in receivables from loans, notes, and primary government. The governmental activities total assets increased by \$247.2 million (153.4%), primarily from the investment of collections of the new unemployment obligation assessment revenue in the governmental funds, which will be used for future debt service payments in the Unemployment Obligation Assessment Debt Service Fund.

The Authority's total liabilities increased by \$2,881.7 million (36.0%) during fiscal year 2011-12. The governmental activities liabilities increased by \$3,338.0 million (301.3%) primarily from the issuance of the new unemployment obligation assessment bonds in fiscal year 2011-12. The business-type activities liabilities decreased by \$456.3 million (6.6%) primarily from fulfilling debt service requirements during the fiscal year.

The largest component of the Authority's net assets, at a negative \$3,882.6 million as of September 30, 2012, reflects its unrestricted net assets. These represent the result of

the Authority recording liabilities for the entire amount of outstanding bonds for its tobacco settlement bonds and the Authority's new unemployment obligation assessment bonds that were issued in fiscal year 2011-12. The tobacco settlement bonds are payable from proceeds from the Authority's share of future Master Settlement Agreement (MSA) receipts; however, accounting principles preclude the Authority from recording anticipated receipt of those proceeds because the underlying economic event has not yet occurred. The unemployment obligation assessment bonds are payable from future collections of the unemployment obligation assessment as collected by LARA; however, accounting principles preclude the Authority from recording anticipated receipt of those proceeds because the underlying economic event has not yet occurred.

The next largest component of the Authority's net assets, at \$2,890.0 million as of September 30, 2012, reflects its restricted net assets. These represent resources that are subject to external restrictions or enabling legislation on how they can be used.

The following condensed financial information was derived from the government-wide statement of activities and reflects how the Authority's net assets changed during the fiscal year:

Changes in Net Assets  
For the Fiscal Years Ended September 30  
(In Millions)

	Governmental Activities		Business-Type Activities		Total Authority	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues						
Charges for services	\$ 323.0	\$ 60.6	\$ 242.8	\$ 254.4	\$ 565.8	\$ 315.0
Operating grants and contributions	3.5	2.5	368.8	338.6	372.3	341.1
General revenues	1.0				1.0	
Total revenues	<u>\$ 327.5</u>	<u>\$ 63.1</u>	<u>\$ 611.6</u>	<u>\$ 593.0</u>	<u>\$ 939.1</u>	<u>\$ 656.1</u>
Expenses						
Total expenses	<u>3,418.4</u>	<u>75.3</u>	<u>255.6</u>	<u>283.2</u>	<u>3,674.0</u>	<u>358.5</u>
Increase (decrease) in net assets	\$ (3,090.9)	\$ (12.2)	\$ 355.9	\$ 309.7	\$ (2,735.0)	\$ 297.5
Net assets - Beginning of fiscal year	<u>(946.8)</u>	<u>(934.6)</u>	<u>2,689.2</u>	<u>2,379.4</u>	<u>1,742.4</u>	<u>1,444.8</u>
Net assets - End of fiscal year	<u><u>\$ (4,037.6)</u></u>	<u><u>\$ (946.8)</u></u>	<u><u>\$3,045.1</u></u>	<u><u>\$2,689.2</u></u>	<u><u>\$ (992.6)</u></u>	<u><u>\$1,742.4</u></u>

The Authority's total revenue for fiscal year 2011-12 increased by \$283.0 million (43.1%) when compared to the prior year, primarily as a result of collections of the new unemployment obligation assessments of \$255.5 million.

The Authority's total expenses increased by \$3,315.5 million (924.7%) during fiscal year 2011-12. The governmental activities accounted for a majority of the increase primarily from payments to LARA for the unemployment obligation assessment bond proceeds.

## **FINANCIAL ANALYSIS OF THE AUTHORITY'S MAJOR FUNDS**

### **General Fund**

The General Fund accounts for the administrative expenditures for the Tobacco Settlement Debt Service Fund and the Unemployment Obligation Assessment Debt Service Fund. Total assets increased by \$1.2 million (157.2%), primarily from an increase in investments from a \$1.0 million payment received from the State of Michigan in fiscal year 2011-12 to fund future internal administrative expenditures related to the unemployment obligation assessment bond issues. Total liabilities increased by \$0.1 million (36.9%) primarily as a result of additional activity in the fund from the new Unemployment Obligation Assessment Debt Service Fund.

General Fund revenues increased by \$1.0 million (296.2%) from a \$1.0 million payment received from the State of Michigan in fiscal year 2011-12 to fund future internal administrative expenditures related to the unemployment obligation assessment bond issues. Other administrative expenditures increased by \$12.6 million and other financing sources increased by \$12.5 million from the prior year because of the unemployment obligation assessment bond proceeds, which provided the Authority with resources to pay for the related administrative expenditures for the bond issues.

### **Tobacco Settlement Debt Service Fund**

Total assets increased by \$0.2 million (0.1%) and total liabilities decreased by \$0.3 million (0.6%) during fiscal year 2011-12. Changes in assets and liabilities are primarily affected by the deferred revenue and receivable for tobacco settlement claims expected to be received in fiscal year 2012-13. No bonds were issued in fiscal year 2011-12.

Tobacco settlement revenue (TSR) decreased by \$1.8 million (2.8%) as a result of the decreased revenue from tobacco sales. All tobacco settlement collections are contingent upon actual tobacco product sales and are subject to various adjustments as outlined in the MSA. Expenditures decreased by \$1.2 million (1.9%) as a result of a decrease in debt service requirements.

### **Unemployment Obligation Assessment Debt Service Fund**

The Unemployment Obligation Assessment Debt Service Fund was created during fiscal year 2011-12 as a result of the unemployment obligation assessment bond issues completed in December 2011. Total assets were \$231.0 million at September 30, 2012. This balance represents \$200.4 million in investments and \$30.6 million receivable from LARA. The fund had no liabilities at September 30, 2012.

Revenues for the Unemployment Obligation Assessment Debt Service Fund were \$255.5 million for fiscal year 2011-12, which consisted primarily of unemployment obligation assessment collections. The funds will be used for future debt service requirements. Fund expenditures were \$6,647.1 million, which was activity related to debt service payments on interest and principal of \$3,326.2 million and payments to LARA for the unemployment obligation assessment bond proceeds of \$3,320.9 million. Other financing sources (uses) were \$6,622.6 million, which consisted of the original bond issue of \$3,320.9 million, the refunding bond issue of \$2,906.7 million, and bond premiums of \$395.0 million.

### **Municipal Bond Fund**

Total assets increased by \$247.9 million (3.4%) during fiscal year 2011-12. This increase is primarily due to the increase in loans receivable for new loan activity for the various programs. Also, there was an increase in the receivable from the primary government from additional loans made under the School Loan Revolving Subfund.

Total liabilities decreased by \$79.1 million (1.7%) during fiscal year 2011-12, primarily from a reduction of \$66.0 million from payments and refundings of bonds and notes payable.

Operating revenue of the Municipal Bond Fund decreased by \$4.8 million (2.1%) during fiscal year 2011-12. This decrease was primarily from a reduction in interest revenue earned for the fiscal year. Operating expenses decreased by \$20.8 million (10.4%) in

fiscal year 2011-12 primarily from a decrease in interest expense on the bonds and notes payable.

Nonoperating revenues increased by \$33.3 million (13.6%) primarily as a result of an increase in operating subsidies in the State Revolving Subfund, Strategic Water Quality Initiatives Subfund, and the School Loan Revolving Subfund.

### **Student Loan Fund**

The Student Loan Fund's total assets decreased by \$346.5 million (15.7%) resulting from a decrease of \$62.2 million in the cash and cash equivalents and a decrease in loans receivable of \$271.1 million. The decrease of cash and cash equivalents was primarily attributable to \$167.7 million mandatory redemptions of student loan notes and \$187.6 million optional redemptions of student loan bonds, for total redemptions of \$355.3 million. Loans receivable decreased because new loans have not been originated since June 30, 2010, \$8.5 million of loans receivable were written off due to loan defaults, and \$297.1 million of student loan principal has been paid, of which \$79.2 million resulted from the loan payoff under the USDOE Special Direct Consolidation Loan Program.

The Student Loan Fund's total liabilities decreased by \$369.6 million (17.8%) primarily due to the \$355.3 million of redemptions as noted previously.

In fiscal year 2011-12, the federal revenue was composed of interest subsidy of \$7.8 million on the subsidized loans that the USDOE pays the Student Loan Fund and a net payment of \$23.5 million to the USDOE for special allowance that is principally an incentive paid to lenders in order that money market conditions and interest rates will not impede the issuance of student loans. However, for loans first disbursed on or after October 1, 2007, the College Cost Reduction and Access Act reduced the special allowance factors and the Deficit Reduction Act of 2005 required that, if the resulting special allowance calculation was negative, the negative special allowance must be paid to the USDOE. In fiscal year 2011-12, the Authority paid the USDOE \$24.5 million because the Authority's yield on student loans was greater than the allowable yield noted in the aforementioned Acts (see Note 11).

The interest revenue decrease of \$6.5 million (9.7%) was primarily attributable to the decrease of the student loan portfolio.

Interest expense of negative \$2.7 million includes interest expense of \$13.3 million reduced by the amortization of net deferred gains on refunded bonds of \$16.0 million. The interest expense decrease of \$4.0 million was primarily attributable to lower interest rates and the decreased balance of notes and bonds from redemptions. The amortization of net deferred gains is primarily from bonds refunded with the Straight-A note, which started in June 2010 and continues until maturity of the note in January 2014.

### **CONTACTING THE MICHIGAN FINANCE AUTHORITY**

Additional information about the Authority as well as annual statistical and audit reports can be found at [www.michigan.gov/mfa](http://www.michigan.gov/mfa).

The contact information for the Authority is:

Michigan Finance Authority  
Richard H. Austin Building  
430 West Allegan  
Lansing, MI 48922  
Phone (517) 335-0994

## BASIC FINANCIAL STATEMENTS

**MICHIGAN FINANCE AUTHORITY**  
**Statement of Net Assets**  
**As of September 30, 2012**

	Governmental Activities	Business-Type Activities	Totals
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents (Note 3)	\$	\$ 732,488,546	\$ 732,488,546
Receivable - Tobacco settlement revenue	49,610,150		49,610,150
Receivable from federal government		2,266,470	2,266,470
Receivable from primary government (Note 4)	35,758,145	870,000	36,628,145
Receivable from other funds		1,811,866	1,811,866
Interest receivable	789,216	58,543,429	59,332,645
Investments (Note 3)	233,347,778	1,071,975,856	1,305,323,635
Notes receivable (Note 5)		700,614,691	700,614,691
Loans receivable, net (Note 6)		382,133,496	382,133,496
Bonds receivable (Note 7)		100,184,640	100,184,640
Other current assets		1,424,291	1,424,291
Total current assets	<u>\$ 319,505,289</u>	<u>\$ 3,052,313,286</u>	<u>\$ 3,371,818,576</u>
Noncurrent assets:			
Receivable from primary government (Note 4)	\$	\$ 1,026,515,181	\$ 1,026,515,181
Interest receivable		30,085,107	30,085,107
Investments (Note 3)	71,803,425	873,639,848	945,443,274
Loans receivable, net (Note 6)		3,717,573,776	3,717,573,776
Bonds receivable (Note 7)		737,522,305	737,522,305
Deferred charges/financing costs, net	16,985,376	39,637,400	56,622,776
Other noncurrent assets	59,000		59,000
Total noncurrent assets	<u>\$ 88,847,802</u>	<u>\$ 6,424,973,618</u>	<u>\$ 6,513,821,419</u>
Total assets	<u>\$ 408,353,091</u>	<u>\$ 9,477,286,903</u>	<u>\$ 9,885,639,995</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and other liabilities	\$ 283,427	\$ 9,447,848	\$ 9,731,274
Bonds and notes payable, net (Note 8)	180,850,000	1,135,351,416	1,316,201,416
Interest payable	53,238,585	71,646,619	124,885,204
Arbitrage payable		4,785,796	4,785,796
Compensated absences	3,836	68,946	72,782
Total current liabilities	<u>\$ 234,375,847</u>	<u>\$ 1,221,300,625</u>	<u>\$ 1,455,676,472</u>
Noncurrent liabilities:			
Bonds and notes payable, net (Note 8)	\$ 4,211,595,230	\$ 5,182,659,380	\$ 9,394,254,610
Arbitrage payable		27,556,150	27,556,150
Compensated absences	18,791	697,739	716,530
Total noncurrent liabilities	<u>\$ 4,211,614,020</u>	<u>\$ 5,210,913,270</u>	<u>\$ 9,422,527,290</u>
Total liabilities	<u>\$ 4,445,989,868</u>	<u>\$ 6,432,213,894</u>	<u>\$ 10,878,203,762</u>
<b>NET ASSETS</b>			
Unrestricted (deficit) (Note 2)	\$ (4,037,636,777)	\$ 155,074,009	\$ (3,882,562,767)
Restricted (Note 1)		2,889,999,000	2,889,999,000
Total net assets	<u>\$ (4,037,636,777)</u>	<u>\$ 3,045,073,010</u>	<u>\$ (992,563,767)</u>
Total liabilities and net assets	<u>\$ 408,353,091</u>	<u>\$ 9,477,286,903</u>	<u>\$ 9,885,639,995</u>

The accompanying notes are an integral part of the financial statements.

MICHIGAN FINANCE AUTHORITY  
Statement of Activities  
For the Fiscal Year Ended September 30, 2012

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Tobacco Settlement	\$ 76,117,002	\$ 62,345,793	\$ 3,498,365	\$ (10,272,843)
Unemployment Obligation	3,342,293,493	260,695,144	14,804	(3,081,583,546)
Total Governmental Activities	<u>\$ 3,418,410,495</u>	<u>\$ 323,040,937</u>	<u>\$ 3,513,169</u>	<u>\$ (3,091,856,389)</u>
Business-Type Activities:				
Municipal Bond Fund	\$ 205,622,188	\$ 164,066,340	\$ 368,696,306	\$ 327,140,458
Student Loan Fund	29,775,260	52,846,772	94,292	23,165,804
Non-Major Funds	20,240,504	25,840,665	(5,360)	5,594,800
Total Business-Type Activities	<u>\$ 255,637,953</u>	<u>\$ 242,753,777</u>	<u>\$ 368,785,238</u>	<u>\$ 355,901,062</u>
Total Michigan Finance Authority	<u>\$ 3,674,048,448</u>	<u>\$ 565,794,714</u>	<u>\$ 372,298,407</u>	<u>\$ (2,735,955,327)</u>

The accompanying notes are an integral part of the financial statements.

General Revenues		Changes in Net Assets	Net Assets Beginning of Fiscal Year	Net Assets End of Fiscal Year
Transfers	Payments from State of Michigan			
\$	\$	\$ (10,272,843)	\$ (946,780,387)	\$ (957,053,230)
	1,000,000	(3,080,583,546)		(3,080,583,546)
\$ 0	\$ 1,000,000	\$ (3,090,856,389)	\$ (946,780,387)	\$ (4,037,636,777)
\$ (152,849)	\$	\$ 326,987,607	\$ 2,519,693,567	\$ 2,846,681,174
		23,165,804	128,838,535	152,004,339
152,849		5,747,649	40,639,848	46,387,497
\$ 0	\$ 0	\$ 355,901,062	\$ 2,689,171,950	\$ 3,045,073,010
\$ 0	\$ 1,000,000	\$ (2,734,955,327)	\$ 1,742,391,563	\$ (992,563,767)

MICHIGAN FINANCE AUTHORITY  
Governmental Funds  
Balance Sheet  
As of September 30, 2012

	Major Funds			
	General Fund	Tobacco Settlement Debt Service Fund	Unemployment Obligation Assessment Debt Service Fund	Totals
<b>ASSETS</b>				
Current assets:				
Receivable - Tobacco settlement revenue	\$ 271,427	\$ 49,338,724	\$	\$ 49,610,150
Receivable from primary government (Note 4)			30,603,568	30,603,568
Interest receivable		789,216		789,216
Investments (Note 3)	1,700,777	31,237,541	200,409,461	233,347,778
Total current assets	<u>\$ 1,972,204</u>	<u>\$ 81,365,480</u>	<u>\$ 231,013,028</u>	<u>\$ 314,350,712</u>
Noncurrent assets:				
Investments (Note 3)	\$	\$ 71,803,425	\$	\$ 71,803,425
Other noncurrent assets			14,849	14,849
Total noncurrent assets	<u>\$ 0</u>	<u>\$ 71,803,425</u>	<u>\$ 14,849</u>	<u>\$ 71,818,275</u>
Total assets	<u>\$ 1,972,204</u>	<u>\$ 153,168,906</u>	<u>\$ 231,027,877</u>	<u>\$ 386,168,987</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and other liabilities	\$ 283,427	\$	\$	\$ 283,427
Deferred revenue (Note 1)	271,427	49,338,724		49,610,150
Total current liabilities	<u>\$ 554,853</u>	<u>\$ 49,338,724</u>	<u>\$ 0</u>	<u>\$ 49,893,577</u>
Total liabilities	<u>\$ 554,853</u>	<u>\$ 49,338,724</u>	<u>\$ 0</u>	<u>\$ 49,893,577</u>
<b>FUND BALANCE</b>				
Fund balance:				
Restricted for debt service	\$	\$ 103,830,182	\$ 231,027,877	\$ 334,858,059
Restricted for administrative expenditures	1,417,351			1,417,351
Total fund balance	<u>\$ 1,417,351</u>	<u>\$ 103,830,182</u>	<u>\$ 231,027,877</u>	<u>\$ 336,275,410</u>
Total liabilities and fund balance	<u>\$ 1,972,204</u>	<u>\$ 153,168,906</u>	<u>\$ 231,027,877</u>	<u>\$ 386,168,987</u>

The accompanying notes are an integral part of the financial statements.

MICHIGAN FINANCE AUTHORITY  
For the Fiscal Year Ended September 30, 2012

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

Total fund balances for governmental funds \$ 336,275,410

Amounts reported for governmental activities in the statement of net assets are different because:

**Receivable from the primary government** for the unemployment obligation assessment revenue is recognized by the Authority when the primary government recognizes revenue and a liability to the Authority. The primary government recognizes additional revenue that is assessed for the statement of activities but is not available for governmental funds. 5,154,577

**Valuation gains and losses on hedging derivatives** are recognized in governmental funds when changes occur in market values, whereas they are deferred until the termination of the hedging derivative in the statement of net assets. 44,151

**Deferred charges/financing costs** for bond issuance costs are expended in governmental funds when the bonds are issued, whereas they are capitalized and amortized over the life of the bonds in the statement of net assets. 16,985,376

**Interest payable** on bonds is not due and payable in the current period and therefore is not reported in the governmental funds, whereas a liability is established for bond interest when incurred in the statement of net assets. (53,238,585)

**Bonds payable** are not due and payable in the current period and therefore are not reported in the governmental funds, whereas a liability for the bonds is established when the bonds are issued in the statement of net assets. (4,392,445,230)

**Deferred revenue** is recorded in governmental funds for tobacco settlement revenue that has been earned but is not available, whereas revenue is recognized when earned in the statement of net assets. 49,610,150

**Compensated absences payable** are not due and payable in the current period and therefore are not reported in the governmental funds, whereas a liability is established for absences when earned in the statement of net assets. (22,626)

Net assets (deficit) \$ (4,037,636,777)

The accompanying notes are an integral part of the financial statements.

**MICHIGAN FINANCE AUTHORITY**  
**Governmental Funds**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**For the Fiscal Year Ended September 30, 2012**

	Major Funds			Totals
	General Fund	Tobacco Settlement Debt Service Fund	Unemployment Obligation Assessment Debt Service Fund	
<b>REVENUES</b>				
Payment from the State of Michigan	\$ 1,000,000	\$	\$	\$ 1,000,000
Tobacco settlement revenue	351,361	61,418,556		61,769,917
Unemployment obligation assessment revenue			255,540,566	255,540,566
Investment income	204	4,347,786	(29,536)	4,318,454
Total revenues	<u>\$ 1,351,565</u>	<u>\$ 65,766,342</u>	<u>\$ 255,511,030</u>	<u>\$ 322,628,937</u>
<b>EXPENDITURES</b>				
Payments to Department of Licensing and Regulatory Affairs	\$	\$	\$ 3,320,913,984	\$ 3,320,913,984
Interest and principal on bonds and notes		65,322,981	3,326,184,327	3,391,507,308
Other administrative expenditures	12,808,950			12,808,950
Total expenditures	<u>\$ 12,808,950</u>	<u>\$ 65,322,981</u>	<u>\$ 6,647,098,311</u>	<u>\$ 6,725,230,242</u>
Excess of revenues over (under) expenditures	<u>\$ (11,457,385)</u>	<u>\$ 443,360</u>	<u>\$ (6,391,587,281)</u>	<u>\$ (6,402,601,305)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Bonds issued	\$ 2,086,016	\$	\$ 3,320,913,984	\$ 3,323,000,000
Refunding bonds issued	10,427,128		2,906,707,872	2,917,135,000
Premium on bond issuance			394,993,301	394,993,301
Total other financing sources/(uses)	<u>\$ 12,513,144</u>	<u>\$ 0</u>	<u>\$ 6,622,615,157</u>	<u>\$ 6,635,128,301</u>
Change in fund balance	\$ 1,055,759	\$ 443,360	\$ 231,027,877	\$ 232,526,997
Fund balance - Beginning of fiscal year	361,592	103,386,822		103,748,413
Fund balance - End of fiscal year	<u>\$ 1,417,351</u>	<u>\$ 103,830,182</u>	<u>\$ 231,027,877</u>	<u>\$ 336,275,410</u>

The accompanying notes are an integral part of the financial statements.

MICHIGAN FINANCE AUTHORITY  
For the Fiscal Year Ended September 30, 2012

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Net change in fund balance - Total governmental funds \$ 232,526,997

Amounts reported for governmental activities in the statement of net assets are different because:

**Tobacco settlement revenue** is not recognized as revenue until earned and available by governmental funds and is recorded as deferred revenue. Revenue is recognized when earned in the statement of activities. (273,559)

**Unemployment obligation assessment revenue** does not provide current financial resources for governmental funds because the revenue is not available, whereas revenue is recognized when assessed for the statement of activities. 5,154,577

**Valuation gains and losses on hedging derivatives** are recognized in governmental funds when changes occur in market values, whereas they are deferred until the termination of the hedging derivative in the statement of activities. 44,151

**Bond proceeds and principal payments** - Bond proceeds are current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Bond proceeds are increased/decreased for bond premiums/discounts when bonds are issued, whereas the premiums/discounts are amortized and expensed over the life of the bonds in the statement of activities.

Bond proceeds received	(6,240,135,000)
Bond premiums received	(394,993,301)
Repayment of bond principal	3,327,560,000
Amortization of bond premiums	17,216,953
Amortization of bond discounts	(305,381)

**Bond interest** is recognized as an expenditure when due and payable by governmental funds, whereas it is expensed when incurred for the statement of activities. (47,692,658)

**Bond issuance costs and loss on refunded bonds** are recognized as expenditures in the year the governmental fund issues the bond, whereas these costs are amortized and expensed over the life of the bonds in the statement of activities.

Deferred loss on refunding bonds	517,465
Deferred issuance costs	10,390,204
Amortization of deferred loss on refunding bonds	(66,570)
Amortization of deferred issuance costs	(798,497)

**Compensated absences** are recorded as expenditures in governmental funds when due and payable, whereas they are accrued and expensed when these absences are earned in the statement of activities. (1,769)

Net change in net assets \$ (3,090,856,389)

The accompanying notes are an integral part of the financial statements.

MICHIGAN FINANCE AUTHORITY

Proprietary Funds  
Statement of Net Assets  
As of September 30, 2012

	Business-Type Activities			
	Major Funds		Non-Major Funds	Totals
	Municipal Bond Fund	Student Loan Fund		
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents (Note 3)	\$ 220,962,162	\$ 482,744,064	\$ 28,782,321	\$ 732,488,546
Receivable from federal government	216,331	1,752,282	297,857	2,266,470
Receivable from primary government (Note 4)	870,000			870,000
Receivable from other funds			1,811,866	1,811,866
Interest receivable	34,858,135	23,180,175	505,119	58,543,429
Investments (Note 3)	1,041,918,671	9,791,476	20,265,709	1,071,975,856
Notes receivable (Note 5)	666,698,691		33,916,000	700,614,691
Loans receivable, net (Note 6)	216,381,865	165,751,631		382,133,496
Bonds receivable (Note 7)	100,184,640			100,184,640
Other current assets	93,200	695,104	635,987	1,424,291
Total current assets	<u>\$ 2,282,183,696</u>	<u>\$ 683,914,732</u>	<u>\$ 86,214,857</u>	<u>\$ 3,052,313,286</u>
Noncurrent assets:				
Receivable from primary government (Note 4)	\$ 1,026,515,181	\$	\$	\$ 1,026,515,181
Interest receivable	30,085,107			30,085,107
Investments (Note 3)	872,102,132	500,000	1,037,716	873,639,848
Loans receivable, net (Note 6)	2,557,312,358	1,160,261,418		3,717,573,776
Bonds receivable (Note 7)	737,522,305			737,522,305
Deferred charges/financing costs, net	30,331,785	8,998,792	306,823	39,637,400
Total noncurrent assets	<u>\$ 5,253,868,869</u>	<u>\$ 1,169,760,210</u>	<u>\$ 1,344,539</u>	<u>\$ 6,424,973,618</u>
Total assets	<u>\$ 7,536,052,565</u>	<u>\$ 1,853,674,942</u>	<u>\$ 87,559,397</u>	<u>\$ 9,477,286,903</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and other liabilities	\$ 1,445,950	\$ 7,997,998	\$ 3,900	\$ 9,447,848
Bonds and notes payable, net (Note 8)	954,401,416	140,400,000	40,550,000	1,135,351,416
Interest payable	71,012,061	589,073	45,485	71,646,619
Arbitrage payable	4,785,796			4,785,796
Compensated absences		11,612	57,334	68,946
Total current liabilities	<u>\$ 1,031,645,223</u>	<u>\$ 148,998,683</u>	<u>\$ 40,656,719</u>	<u>\$ 1,221,300,625</u>
Noncurrent liabilities:				
Bonds and notes payable, net (Note 8)	\$ 3,654,171,748	\$ 1,528,487,632		\$ 5,182,659,380
Arbitrage payable	3,554,420	24,001,730		27,556,150
Compensated absences		182,558	515,181	697,739
Total noncurrent liabilities	<u>\$ 3,657,726,168</u>	<u>\$ 1,552,671,920</u>	<u>\$ 515,181</u>	<u>\$ 5,210,913,270</u>
Total liabilities	<u>\$ 4,689,371,391</u>	<u>\$ 1,701,670,603</u>	<u>\$ 41,171,900</u>	<u>\$ 6,432,213,894</u>
<b>NET ASSETS</b>				
Unrestricted	\$ 1,003,880	\$ 143,598,696	\$ 10,471,432	\$ 155,074,009
Restricted (Note 1)	2,845,677,293	8,405,643	35,916,064	2,889,999,000
Total net assets	<u>\$ 2,846,681,174</u>	<u>\$ 152,004,339</u>	<u>\$ 46,387,497</u>	<u>\$ 3,045,073,010</u>
Total liabilities and net assets	<u>\$ 7,536,052,565</u>	<u>\$ 1,853,674,942</u>	<u>\$ 87,559,397</u>	<u>\$ 9,477,286,903</u>

The accompanying notes are an integral part of the financial statements.

MICHIGAN FINANCE AUTHORITY  
Proprietary Funds  
Statement of Revenues, Expenses, and Changes in Net Assets  
For the Fiscal Year Ended September 30, 2012

	Business-Type Activities			
	Major Funds			Totals
	Municipal Bond Fund	Student Loan Fund	Non-Major Funds	
<b>OPERATING REVENUES</b>				
Federal revenue, net of special allowance (Notes 1 and 11)	\$ 600,192	\$ (15,656,869)	\$ 19,523,780	\$ 4,467,103
Interest revenue	164,052,395	61,155,342	932,655	226,140,392
Investment income	63,837,615	94,292	(5,360)	63,926,547
Fees			3,152,877	3,152,877
Miscellaneous	13,945	7,348,299	2,098,911	9,461,155
Total operating revenues	<u>\$ 228,504,146</u>	<u>\$ 52,941,064</u>	<u>\$ 25,702,864</u>	<u>\$ 307,148,074</u>
<b>OPERATING EXPENSES</b>				
Arbitrage expense	\$ 6,285,720	\$ 3,132,953	\$	\$ 9,418,673
Interest expense (Note 8d.)	155,634,481	(2,759,382)	491,901	153,367,000
Amortization of deferred charges/financing costs	11,340,971	1,085,055	425,039	12,851,065
Bad debt expense		8,489,069		8,489,069
Other administrative expense	6,485,368	19,827,565	19,323,564	45,636,497
Total operating expenses	<u>\$ 179,746,540</u>	<u>\$ 29,775,260</u>	<u>\$ 20,240,504</u>	<u>\$ 229,762,304</u>
Operating income (loss)	<u>\$ 48,757,606</u>	<u>\$ 23,165,804</u>	<u>\$ 5,462,359</u>	<u>\$ 77,385,770</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Operating subsidies	\$ 304,258,500	\$	\$	\$ 304,258,500
American Recovery and Reinvestment Act principal forgiveness expense	(1,234,393)			(1,234,393)
Grant expense	(11,577,350)			(11,577,350)
Other	(13,063,906)		132,441	(12,931,465)
Total nonoperating revenues (expenses)	<u>\$ 278,382,851</u>	<u>\$ 0</u>	<u>\$ 132,441</u>	<u>\$ 278,515,292</u>
Income before transfers	<u>\$ 327,140,456</u>	<u>\$ 23,165,804</u>	<u>\$ 5,594,800</u>	<u>\$ 355,901,062</u>
<b>TRANSFERS</b>				
Transfers from other funds	\$	\$	\$ 172,748	\$ 172,748
Transfers to other funds	(152,849)		(19,899)	(172,748)
Total transfers	<u>\$ (152,849)</u>	<u>\$ 0</u>	<u>\$ 152,849</u>	<u>\$ 0</u>
Change in net assets	\$ 326,987,607	\$ 23,165,804	\$ 5,747,649	\$ 355,901,062
Net assets - Beginning of fiscal year	<u>2,519,693,567</u>	<u>128,838,535</u>	<u>40,639,848</u>	<u>2,689,171,950</u>
Net assets - End of fiscal year	<u>\$ 2,846,681,174</u>	<u>\$ 152,004,339</u>	<u>\$ 46,387,497</u>	<u>\$ 3,045,073,010</u>

The accompanying notes are an integral part of the financial statements.

**MICHIGAN FINANCE AUTHORITY**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended September 30, 2012**

	Business-Type Activities			
	Major Funds			Totals
	Municipal Bond Fund	Student Loan Fund	Non-Major Funds	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Bonds, notes, and loans receivable made	\$ (1,667,952,964)	\$	\$ (47,492,695)	\$ (1,715,445,659)
Principal received on bonds, notes, and loans	1,589,061,982	297,105,254	51,034,500	1,937,201,736
Interest received on bonds, notes, and loans	165,901,895	49,926,638	946,907	216,775,441
Cash payments to employees and suppliers for goods and services	(14,913,696)	(18,947,217)	(21,465,736)	(55,326,650)
Other operating revenues	1,103,486	(23,756,158)	27,387,096	4,734,424
Net cash provided by (used in) operating activities	\$ 73,200,703	\$ 304,328,517	\$ 10,410,072	\$ 387,939,292
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Proceeds from sale of bonds and notes, net	\$ 1,415,503,945	\$	\$ 44,195,000	\$ 1,459,698,945
Payment of bond issue costs	(4,771,659)		(373,339)	(5,144,998)
Principal paid on bonds and notes	(1,453,420,898)	(349,008,834)	(51,470,000)	(1,853,899,732)
Interest paid on bonds and notes	(198,129,705)	(13,737,918)	(500,920)	(212,368,543)
Operating subsidies	251,866,576			251,866,576
American Recovery and Reinvestment Act principal forgiveness expense	7,619,170			7,619,170
Grant expense	(25,896,503)			(25,896,503)
Other	(152,849)		(50,906)	(203,755)
Net cash provided by (used in) noncapital financing activities	\$ (7,381,923)	\$ (362,746,752)	\$ (8,200,164)	\$ (378,328,839)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Net (purchases of) proceeds from sale and maturities of investment securities	\$ (26,893,294)	\$ (3,914,452)	\$ (220,861)	\$ (31,028,607)
Interest and dividends on investments	57,207,307	98,739	80,848	57,386,894
Net cash provided by (used in) investing activities	\$ 30,314,013	\$ (3,815,714)	\$ (140,013)	\$ 26,358,287
Net increase (decrease) in cash	\$ 96,132,792	\$ (62,233,949)	\$ 2,069,895	\$ 35,968,739
Cash and cash equivalents - Beginning of fiscal year	124,829,369	544,978,012	26,712,427	696,519,808
Cash and cash equivalents - End of fiscal year	\$ 220,962,162	\$ 482,744,064	\$ 28,782,321	\$ 732,488,546
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 48,757,606	\$ 23,165,804	\$ 5,462,359	\$ 77,385,770
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Investment income	(63,837,615)	(94,292)	5,360	(63,926,547)
Other income	(9,545)	(6,332,774)	(3,500)	(6,345,819)
Interest expense	155,634,481	(2,759,382)	491,901	153,367,000
Amortization of deferred charges	11,340,971	1,085,055	425,039	12,851,065
Changes in assets and liabilities:				
(Increase) decrease in other receivables	7,144,806	15,921,144	521,807	23,587,757
Increase (decrease) in other payables	(1,584,080)	2,198,665	(34,699)	579,886
(Increase) decrease in bonds, notes, and loans receivable	(84,245,922)	271,144,296	3,541,805	190,440,179
Net cash provided by (used in) operating activities	\$ 73,200,703	\$ 304,328,517	\$ 10,410,072	\$ 387,939,292

The accompanying notes are an integral part of the financial statements.



MICHIGAN FINANCE AUTHORITY  
Fiduciary Fund - Private Purpose Trust  
Statement of Fiduciary Net Assets  
As of September 30, 2012

	Michigan Guaranty Agency Federal Fund
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents (Note 3)	\$ 8,025,820
Receivable from federal government	16,352,160
Interest receivable	72
Total current assets	<u>\$ 24,378,052</u>
 Total assets	 <u><u>\$ 24,378,052</u></u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable and other liabilities	\$ 5,041,374
Payable to other funds	1,383,735
Student loan claims payable	8,393,436
Total current liabilities	<u>\$ 14,818,545</u>
 Total liabilities	 \$ 14,818,545
<b>NET ASSETS</b>	
Net assets held in trust (Notes 1b.(5) and 1d.(1))	<u>9,559,507</u>
 Total liabilities and net assets held in trust	 <u><u>\$ 24,378,052</u></u>

The accompanying notes are an integral part of the financial statements.

MICHIGAN FINANCE AUTHORITY  
Fiduciary Fund - Private Purpose Trust  
Statement of Changes in Fiduciary Net Assets  
For the Fiscal Year Ended September 30, 2012

	<u>Michigan Guaranty Agency Federal Fund</u>
Additions:	
Federal revenue	\$ 119,266,367
Loans recovered, repurchased, and rehabilitated	74,186,209
Investment income	1,687
Fees	1,781,018
Total additions	<u>\$ 195,235,281</u>
Deductions:	
Student loan claims paid to lenders	\$ 124,308,450
Payments to federal government	73,254,987
Other expense	1,151,661
Total deductions	<u>\$ 198,715,098</u>
Net increase (decrease)	\$ (3,479,817)
Net assets - Beginning of fiscal year	<u>13,039,324</u>
Net assets - End of fiscal year	<u><u>\$ 9,559,507</u></u>

The accompanying notes are an integral part of the financial statements.



## Notes to the Financial Statements

### Note 1 Significant Accounting Policies

The accounting policies of the Michigan Finance Authority (the Authority) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

#### a. Reporting Entity

The Authority is a discretely presented component unit of the State of Michigan that consolidated certain public finance authorities in Michigan in accordance with Executive Order No. 2010-2, effective May 30, 2010. The Authority combined the operations of 10 different public finance authorities (Michigan Forest Finance Authority, Michigan Higher Education Assistance Authority, Michigan Higher Education Facilities Authority, Michigan Higher Education Student Loan Authority, Michigan Municipal Bond Authority, Michigan Public Educational Facilities Authority, Michigan State Hospital Finance Authority, Michigan Tobacco Settlement Finance Authority, Michigan Underground Storage Tank Financial Assurance Authority, and State Higher Education Facilities Commission). In addition, the authorization to finance the facilities of public and private schools formerly under the Michigan Strategic Fund and to issue bonds and notes on behalf of the State Land Bank Fast Track Authority was transferred to the Authority.

The Authority is governed by its own Board of Directors, composed of seven members, consisting of the State Treasurer as chair and six appointees of the Governor with the advice and consent of the State Senate. The Board provides overall governing direction for the Authority. The Authority is not empowered to create, in any fashion, debt or liabilities on behalf of the State or to pledge the full faith and credit of the State. All administrative functions of the Authority, including budgeting, procurement, personnel, and management functions, are under the direction and supervision of the State Treasurer.

The Authority is empowered to borrow money and to issue its bonds and notes to provide sources of funding for loans to governmental units and school districts. In addition, the Authority may issue bonds and notes to provide sources of funding for private or nonpublic, nonprofit institutions of higher education; governmental units; and eligible healthcare providers and facilities and to undertake or continue public and capital improvements by assisting governmental units in financing and marketing municipal debt and tax-exempt bonds.

The Authority is also empowered to complement and supplement the student loan efforts of Michigan private lenders by making loans and acquiring loans made to students and their parents, thereby enhancing access to higher education. Effective June 30, 2010, the Authority is no longer originating or acquiring loans. The Authority's Michigan Guaranty Agency was formed for the purpose of guaranteeing loans made to qualified students and parents of qualified students through approved financial institutions.

The accompanying financial statements report the financial position and the changes in financial position and, where applicable, cash flows of the Authority, a discretely presented component unit of the State of Michigan, as of September 30, 2012 and for the fiscal year then ended. Accordingly, they do not purport to, and do not, present fairly the financial position and the changes in financial position and cash flows of the State of Michigan or its component units in conformity with GAAP. The financial statements of the Authority are included in the *State of Michigan Comprehensive Annual Financial Report*.

b. Authority Programs

- (1) The Authority's Tobacco Settlement Debt Service Fund (formerly known as the Michigan Tobacco Settlement Finance Authority) was authorized by the provisions of Act 226, P.A. 2005, and amended by Act 18, P.A. 2007. The purpose of the Act is to provide for the sale by the State and the purchase by the Authority of all or a portion of tobacco settlement assets and to authorize the issuance of bonds.

The Authority issued bonds secured by a pledge of a percentage of the State of Michigan's tobacco settlement revenue (TSR) and deposited the bond proceeds in the State of Michigan's General Fund, School Aid Fund, and 21st Century Jobs Trust Fund.

- (2) The Authority's Unemployment Obligation Assessment Debt Service Fund was created pursuant to Act 267, P.A. 2011, to account for bonds issued for purposes of this Act. The Authority issued a payment of \$3,320.9 million from these bond proceeds to the Department of Licensing and Regulatory Affairs (LARA) to provide for:
  - (a) Reducing or avoiding the need for the State to borrow or obtain a federal advance to the State's unemployment trust account within the federal unemployment trust fund;
  - (b) Repaying principal and interest on unpaid advances to the State's unemployment trust account within the federal unemployment trust fund or reimbursing amounts advanced by the State to pay interest on such unpaid advances;
  - (c) Funding the minimum amount necessary to pay unemployment benefits without advances or loans from the federal government before January 1, 2014;
  - (d) Paying unemployment benefits before January 1, 2014;
  - (e) Providing sufficient reserves as necessary under an indenture or under federal unemployment insurance laws, rules, regulations, or guidance as are necessary to minimize the impact on unemployment insurance tax rates.
- (3) The Authority's Municipal Bond Fund (formerly known as the Michigan Municipal Bond Authority) was created pursuant to Act 227, P.A. 1985, to provide alternative sources of funding for governmental units within the State to undertake or continue public improvements

by assisting those governmental units in financing and marketing municipal debt. The Municipal Bond Fund includes the Local Municipalities Subfund, State Revolving Subfund, Strategic Water Quality Initiatives Subfund, and School Loan Revolving Subfund:

- (a) The Local Municipalities Subfund includes the financing activities for municipalities, excluding those activities for school districts, water pollution control, and drinking water projects reported in the other subfunds.
- (b) The Department of Treasury and the Department of Environmental Quality (DEQ) serve as co-administrators of the Clean Water Program and Drinking Water Program within the State Revolving Subfund and the Strategic Water Quality Initiatives Subfund. The Authority provides reduced interest loans for the construction of water pollution control and drinking water projects.
- (c) The Authority's School Loan Revolving Subfund is a self-sustaining fund and was established by Act 93, P.A. 2005, to make loans to school districts to assist in paying debt service on qualified bonds issued by school districts for capital improvement projects. Any money repaid by school districts on loans is deposited back into the revolving fund for future use in funding new loans.
- (4) The Authority's Student Loan Fund (formerly known as the Michigan Higher Education Student Loan Authority) was created and organized under Act 222, P.A. 1975, as amended, to complement and supplement the student loan efforts of Michigan private lenders by making loans and acquiring loans made to students and their parents, thereby enhancing access to higher education.
- (5) The Authority's Michigan Guaranty Agency (MGA) was formed for the purpose of guaranteeing loans made to qualified students and parents of qualified students through approved financial institutions.

The Michigan Guaranty Agency Federal Fund, a fiduciary fund, accounts for money received from various sources and held by the Authority on behalf of the U.S. Department of Education (USDOE). With the passage of the Health Care and Education Reconciliation Act of 2010 on March 26, 2010, no loan guarantees were permitted to be made by the Authority's MGA after June 30, 2010.

- (6) The Authority's Public School Academy Facilities Fund (formerly known as the Michigan Public Educational Facilities Authority) was authorized by Executive Reorganization Order No. 2002-3 (Section 12.192 of the *Michigan Compiled Laws*) to issue bonds for the purpose of making loans through the purchase of municipal obligations in fully marketable form of a governmental unit or making loans to a nonprofit entity for the benefit of a public school academy. All Public School Academy Facilities Fund program bonds are limited obligations of the Authority and are not obligations of the State and therefore are not presented in the financial statements. Fees generated by the Authority on the limited obligation bonds are recognized in the Michigan Finance Authority - Operating Fund, a non-major fund.

c. Other Authority Operations

- (1) The Authority's Healthcare Finance Fund (formerly known as the Michigan State Hospital Finance Authority) was organized under Act 38, P.A. 1969, as amended, to facilitate the ability of eligible healthcare providers and facilities to obtain financing and refinancing for capital improvements by obtaining loans from the Authority. The Authority issues bonds for facility equipment loans through the Healthcare Equipment Loan Program and issues revenue bonds and bonds for other capital needs of the facilities. All Healthcare Finance Fund program bonds are limited obligations of the Authority and are not obligations of the State and therefore are not presented in the financial statements. Fees generated by the Authority on the limited obligation bonds are recognized in the Michigan Finance Authority - Operating Fund, a non-major fund.

- (2) The Authority's Higher Education Facilities Fund (formerly known as the Michigan Higher Education Facilities Authority) was organized under Act 295, P.A. 1969, as amended, to issue tax-exempt bonds and lend the proceeds to private or nonpublic, nonprofit institutions of higher education within the State for capital improvements. All Higher Education Facilities Fund program bonds are limited obligations of the Authority and are not obligations of the State and therefore are not presented in the financial statements. Fees generated by the Authority on the limited obligation bonds are recognized in the Michigan Finance Authority - Operating Fund, a non-major fund.
- (3) The Authority's Michigan Strategic Fund was organized under Act 270, P.A. 1984, as amended, to issue tax-exempt bonds and lend the proceeds to private schools to finance facilities. All Michigan Strategic Fund program bonds are limited obligations of the Authority and are not obligations of the State and therefore are not presented in the financial statements. Fees generated by the Authority on the limited obligation bonds are recognized in the Michigan Finance Authority - Operating Fund, a non-major fund.

d. Basis of Presentation

The basic financial statements have been prepared in accordance with GAAP as prescribed by the Governmental Accounting Standards Board (GASB). The Authority follows the governmental and business-type activities reporting requirements of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. These requirements provide a comprehensive one-line look at the Authority's financial activities, which are presented in the following financial statements:

(1) Government-Wide Financial Statements

The Authority's statement of net assets and statement of activities report information on all non-fiduciary activities of the Authority. The Michigan Guaranty Agency Federal Fund, a fiduciary fund, is excluded from the government-wide financial statements because these assets are held by the Authority on behalf of the USDOE and

do not represent discretionary assets of the Authority to finance its operations. The Authority's activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by charges to external parties for goods or services. The statement of net assets presents the Authority's non-fiduciary assets and liabilities, with the difference reported as net assets. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Program revenues include charges to users who directly benefit from the services and grants and contributions that are restricted to meeting the requirements of a function. Taxes and other items not meeting the definition of program revenues are reported as general revenue.

(2) Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual funds are reported as separate columns in the fund financial statements, with non-major proprietary funds being combined into a single column.

The Authority's major governmental funds include the General Fund, Tobacco Settlement Debt Service Fund, and Unemployment Obligation Assessment Debt Service Fund. The Authority's major proprietary funds include the Municipal Bond Fund and the Student Loan Fund. The non-major proprietary funds include the Michigan Guaranty Agency - Operating Fund, Michigan Finance Authority - Operating Fund, and Public School Academy Facilities Fund. The Authority's fiduciary fund is the Michigan Guaranty Agency Federal Fund.

e. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual, generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period, generally within 60 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when payment is due and payable.

The Authority follows the accounting rules promulgated by GASB. In addition, the Authority follows all Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless pronouncements conflict with or contradict GASB statements. The FASB pronouncements issued after November 30, 1989 are not followed in the preparation of the accompanying financial statements.

f. Major Account Classifications: Assets, Liabilities, and Net Assets/Fund Balance

- (1) Cash and Cash Equivalents - The Authority's cash and cash equivalents include deposits with financial institutions and equity in common cash maintained by the State Treasurer. In addition, the Student Loan Fund, Public School Academy Facilities Fund, Michigan Guaranty Agency - Operating Fund, and Michigan Guaranty Agency

Federal Fund include as cash equivalents highly liquid short-term investments, with original maturities of three months or less, used for cash management rather than investing activities.

- (2) Tobacco Settlement Revenue (TSR) Receivable - This receivable represents the revenue earned as a result of the sale by the State of a portion of its future TSR. The receivable is recognized as revenue in the government-wide financial statement but is deferred in the governmental general fund and the debt service fund financial statements.
- (3) Receivable from Primary Government - The receivable recorded in the School Loan Revolving Subfund is collateralized by two different sources: school districts that previously borrowed from the School Bond Loan Fund, which is a restricted subfund of the State of Michigan's General Fund, and school districts that have borrowed through the School Loan Revolving Subfund.

The receivable recorded in the State Revolving Subfund relates to amounts owed to the Authority for bonds issued by the State in 1992 and 1993 and placed in the State Revolving Subfund reserves to secure bonds issued under that program.

The receivable recorded in the Unemployment Obligation Assessment Debt Service Fund represents primarily amounts owed to the Authority for obligation assessment collections made by LARA but not yet transferred to the Authority. The receivable is recognized as revenue in the government-wide financial statement as well as the debt service fund financial statements because the cash will be received within 60 days after year-end.

- (4) Interest Receivable - This represents interest income earned but not yet received at year-end. This includes interest income earned on investments, notes, loans, and bonds.

- (5) Investments - The Authority invests funds that will not be needed for program use in the near term in investments that include money market funds, commercial paper, U.S. Treasury obligations, repurchase agreements, and bonds. The investment objective is the preservation of capital while managing the cash flow requirements for making debt service payments to bondholders when due and payment of other obligations as required pertaining to rating agency and trustee charges.

The Authority reports investments at fair market value based on quoted market prices, consistent with the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, except for commercial paper, U.S. Treasury notes, and U.S. Treasury bills, which are all reported at amortized cost if purchased within one year of maturity, and repurchase agreements, which are reported using cost-based measures because they are nonparticipating interest-earning investment contracts.

- (6) Notes Receivable - The Authority issues State aid notes and loans the proceeds to school districts and public school academies to meet cash flow needs for operating purposes.
- (7) Loans Receivable - The Authority has outstanding loans with local units of government, public schools, and students and parents. Premiums on loans are included in loans receivable and amortized over the remaining life of the loans as a reduction to interest income.
- (8) Bonds Receivable - Bonds receivable consist of the value of bonds purchased from governmental units that will generate regular principal and interest payments over the life of the bonds.
- (9) Deferred Charges/Financing Costs - Deferred charges represent bond and note issuance costs as of September 30, 2012. These costs are being amortized using the interest method over the life of the related bonds and notes.

(10) Accounts Payable and Other Liabilities - The Authority's accounts payable relate to services provided by vendors and employees and other costs incurred but not yet paid as of year-end.

(11) Bonds Payable - The Authority issues bonds to provide funding for its various programs. In the government-wide and proprietary fund statements, bond premiums, discounts, and issuance costs are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the governmental fund statements, bond premiums, discounts, and issuance costs are recognized in the current period. The face amount of the debt issued, premiums, and discounts are reported as other financing sources and uses. Issuance costs are reported as debt service expenditures.

(12) Notes Payable - The State aid, tax anticipation, and public school academy facilities notes are payable by the Authority, through designated trustees, solely from funds received from each participating public school in payment of the school's notes and from investment earnings, undisbursed note proceeds, and other funds of each participating public school retained by the trustees on a note issue-specific basis.

(13) Interest Payable - This represents interest expense on the Authority's outstanding bonds that has been incurred but not paid at year-end.

(14) Arbitrage Payable - In accordance with provisions of the Internal Revenue Code and related regulations, interest income from investments related to the Authority's tax-exempt bond issues is generally limited to the bond yield of the related bond issue. Similarly, loan income on all tax-exempt bond issues that may be retained by the Authority is limited to the bond yield plus an allowable spread. Reserves are maintained for estimated future payments of

excess loan and investment income. Payments of excess loan or investment income are required to be made to the federal government on a periodic basis during the term and at final maturity of the related bond issue.

- (15) Compensated Absences - In the government-wide and proprietary fund financial statements, compensated absences are reported as liabilities. Compensated absences are accrued employee vacation, banked leave time, and sick leave time. In governmental fund financial statements, liabilities for compensated absences are accrued when they are considered due and payable and recorded in the fund only for separations or transfers that occur before year-end. The Authority is allocated a percentage of assigned employees of the Department of Treasury. The Authority allocates employee payroll costs among the various Authority operating funds as appropriate to where the employees' time resources are concentrated.
- (16) Deferred Revenue - The Authority records deferred revenue when revenue is unearned or unavailable in governmental fund statements primarily for the TSR receivable.
- (17) Net Assets/Fund Balance - The difference between fund assets and liabilities is net assets on the government-wide, proprietary fund, and fiduciary fund financial statements. The difference between fund assets and liabilities is fund balance on the governmental fund financial statement. Fund balances for the Authority's governmental funds are classified as restricted in the fund financial statements. Restricted fund balance reflects funds that have constraints placed on the use of the resources through enabling legislation and bond covenants.
- (18) Restricted Net Assets - Substantially all of the assets of the Authority are pledged for payment against the various bond indentures. The State Revolving Subfund, Strategic Water Quality Initiatives Subfund, and School Loan Revolving Subfund restricted net assets are for the construction of water pollution control and drinking water projects, sewage system improvements, and qualified loans to school districts.

g. Major Account Classifications: Revenues, Expenses/Expenditures, and Additions/Deductions

(1) Governmental Funds

(a) Revenues - The Authority has two primary revenue sources in its governmental funds. The first revenue source is from the Authority's share of the TSR received from the State of Michigan under the terms of the Master Settlement Agreement (MSA). The second revenue source is from the receipt of unemployment obligation assessment revenue collections from LARA. Expenditures are primarily debt service principal and interest on outstanding bonds.

(b) Payments to LARA - The Authority issued a payment of \$3.3 billion, from bond proceeds of the Unemployment Obligation Assessment Debt Service Fund, to LARA for purposes of (i) reducing or avoiding the need for the State to borrow or obtain a federal advance to the State's Unemployment Trust Account within the Federal Unemployment Trust Fund; (ii) repaying principal and interest on unpaid advances to the State's Unemployment Trust Account within the Federal Unemployment Trust Fund or reimbursing amounts advanced by the State to pay interest on such unpaid advances; (iii) funding the minimum amount necessary to pay unemployment benefits without advances or loans from the federal government before January 1, 2014; and (iv) paying unemployment benefits before January 1, 2014.

(2) Proprietary Funds - Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are reported as nonoperating.

The Authority's primary operations include issuing bonds, providing and acquiring loans, purchasing local unit bonds, and guaranteeing

qualified student loans. The operating revenues and expenses and the nonoperating revenues and expenses from the Authority's primary operations include:

- (a) Operating Revenues - The principal operating revenues of the Authority are federal grants, interest earned on loans, investment revenue, and charges to customers for financing services. Federal revenue is for subsidized student loan interest, defaulted student loan recoveries, and repurchased and rehabilitated loans. In addition, federal revenue applicable to account maintenance fees is based on .06% of the original principal amount of outstanding loans paid from the Michigan Guaranty Agency Federal Fund to the Michigan Guaranty Agency - Operating Fund.

Fees are generated from servicing of outstanding loans, default aversion services, and consolidated loan services. The default aversion fee is for aversion activities on delinquent loans at the time lenders request default aversion assistance and is equal to 1.0% of principal and interest on the loan and is paid from the Michigan Guaranty Agency Federal Fund to the Michigan Guaranty Agency - Operating Fund. Consolidated loan fees are received for collection costs and recorded in the Michigan Guaranty Agency - Operating Fund.

- (b) Operating Expenses - Operating expenses of the Authority include arbitrage expense, interest expense on bonds and notes, the cost of financing services, bad debts related to student loans, and administrative expenses.
- (c) Nonoperating Revenues/Expenses - Nonoperating revenues include the American Recovery and Reinvestment Act of 2009 (ARRA) federal grants, U.S. Environmental Protection Agency capitalization grants, and capital provided by the primary government and recognized as operating subsidies. Nonoperating expenses represent the disbursement of grant

funds. The Authority reported operating subsidies of \$304.3 million, nonoperating revenue of \$0.1 million, and nonoperating expenses of \$25.9 million in its proprietary fund statement of revenues, expenses, and changes in net assets.

- (3) Fiduciary Fund - Additions include federal funds and recovery of funds from potentially defaulted loans, repurchased loans, or loans that have been rehabilitated. Deductions include loan claims from financial institutions for loans on which the student defaulted and the unpaid loans have been acquired by the Michigan Guaranty Agency and payments to the federal government for recovered, repurchased, or rehabilitated loans for which the claim was already paid.

h. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. The Authority estimates the arbitrage liability. Additionally, the use of estimates by the Authority is also disclosed in Note 6d. for Student Loan Fund receivables and Note 12a. for contingencies related to the tobacco settlement revenue.

Note 2 Deficit Net Asset Balance

The Authority is reporting a net asset deficit balance of \$4,037.6 million at September 30, 2012 on the government-wide statement of net assets within governmental activities. Both the Tobacco Settlement and the Unemployment Obligation activities reported a net asset deficit balance of \$957.1 million and \$3,080.6 million at September 30, 2012, respectively.

The payments to be received for the Tobacco Settlement Debt Service Fund under the MSA represent a share of anticipated future sales of tobacco products. Although the Authority expects to receive certain amounts under the MSA, the collections are not subject to accrual under GAAP.

The payments to be received by the Unemployment Obligation Assessment Debt Service Fund represent collections from Michigan businesses received by the State of Michigan's Department of Licensing and Regulatory Affairs (LARA) for the unemployment obligation assessment. Although the Authority expects to receive projected amounts under the inter-agency agreement with LARA, the collections are not subject to accrual under GAAP.

Under GAAP, such contingent amounts cannot be recognized as a receivable or revenue until the actual amounts are measurable and available. However, the Authority's bond issuances are recorded as a liability on the entity-wide financial statements, resulting in a net deficit in the Authority's governmental activities.

**Note 3 Deposits and Investments**

Deposits and investments held by the Authority at September 30, 2012 were as follows:

	Governmental Activities Governmental Funds	Business-Type Activities Proprietary Funds	Fiduciary Fund	Total
Deposits	\$ 0	\$ 231,754,693	\$ 1,527,786	\$ 233,282,479
Investments	\$ 305,151,204	\$ 2,442,328,718	\$ 9,110,479	\$2,756,590,400

- a. State statutes, board resolutions, and bond indentures authorize allowable investments for the various funds. The permissible investments for the various funds include:

- (1) Governmental Activities

- (a) General Fund

- The Authority is authorized by State statute to invest any money, at the Authority's discretion, in any obligations it determines as proper.

(b) Tobacco Settlement Debt Service Fund

The Authority is authorized by State statute to invest any money, at the Authority's discretion, in any obligations it determines as proper. The Authority's bond indenture restricts the Authority to investments rated "A-1" or higher by Standard & Poor's (S&P), "P-1" by Moody's Investors Service, Inc. (Moody's), and "F1" by Fitch Ratings (Fitch).

(c) Unemployment Obligation Assessment Debt Service Fund

The Authority is authorized by State statute to invest any money, at the Authority's discretion, in any obligations it determines as proper. In addition, the Master Bond Indenture specifies eligible investments.

(2) Business-Type Activities

(a) Municipal Bond Fund

The Authority is authorized by State statute to direct and manage its investments within the provisions of law applicable to State funds or resolutions authorizing bonds or notes. In addition, the Master Bond and Note Indentures for the various programs within the Municipal Bond Fund may define additional eligible investments.

(b) Student Loan Fund

The Authority is authorized by State statute to invest in obligations of, or guaranteed by, the U.S. government or the State of Michigan; U.S. government or federal agency obligation repurchase agreements; mutual funds; common trust funds; bankers' acceptances; certificates of deposit; savings and deposit accounts; and commercial paper.

(c) Michigan Guaranty Agency - Operating Fund

The Authority is authorized by board resolution to invest in obligations of, or guaranteed by, the U.S. government; U.S. government or federal agency obligation repurchase

agreements; mutual funds; common trust funds; bankers' acceptances; certificates of deposit; savings and deposit accounts; and commercial paper.

(d) Michigan Finance Authority - Operating Fund

Cash and investments applicable to operations from the Local Municipalities Subfund, Higher Education Facilities Fund, Public School Academy Facilities Fund, and Healthcare Finance Fund are consolidated into the Michigan Finance Authority - Operating Fund. State statutes for these funds authorize the allowable investments. The authorized investments for the Local Municipalities Subfund are identified under the Municipal Bond Fund in part (a) of this note, and the authorized investments for the Public School Academy Facilities Fund are identified in part (e) of this note. The authorized investments for the Higher Education Facilities Fund are obligations of, or guaranteed by, the U.S. government or the State of Michigan and certificates of deposit. The authorized investments for the Healthcare Finance Fund are obligations of, or guaranteed by, the U.S. government or the State of Michigan, certificates of deposit, commercial paper, U.S. government repurchase agreements, mutual funds, bankers' acceptances, and other obligations approved by the State Treasurer.

(e) Public School Academy Facilities Fund

The Authority is authorized by State statute to invest within the provisions of law applicable to State funds or resolutions authorizing bonds or notes. In addition, the Master Bond and Note Indentures may define additional eligible investments.

(3) Fiduciary Fund - Michigan Guaranty Agency Federal Fund

The Authority is authorized by board resolution to invest in obligations of, or guaranteed by, the U.S. government; U.S. government or federal agency obligation repurchase agreements; mutual funds; common trust funds; bankers' acceptances; certificates of deposit; savings and deposit accounts; and commercial paper.

- b. The Authority's cash and investments are subject to several types of risk, which are examined in more detail below:

- (1) Custodial Credit Risk for Deposits - Custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, the Authority's deposits may not be recovered. The Authority had \$233.3 million in deposits at September 30, 2012. Of this balance, \$221.0 million was invested in the State of Michigan's common cash pool and \$12.3 million was the carrying value of cash in financial institutions.

The common cash pool is managed by the State Treasurer and is authorized to invest surplus funds in depository accounts at financial institutions; bonds, notes, and other U.S. government debt; prime commercial paper; certificates of deposit; and special State investment programs. At September 30, 2012, the common cash pool held the majority of its funds in depository accounts (48%) and prime commercial paper (50%). The State Treasurer's policy for common cash depository accounts requires financial institutions to secure State funds with collateral, to be organized under federal or State law, and to maintain an office in Michigan. The policy also restricts deposits to a maximum of 50% of the financial institution's net worth. As of September 30, 2012, 99.7% of the State's common cash depository accounts were either covered by federal depository insurance or collateralized with securities held in the State's name by the State's agent. The State Treasurer's policy requires prime commercial paper to be rated "A-1" by S&P or "P-1" by Moody's or higher at purchase and places requirements and restrictions on the borrower. Additional details on the common cash pool policies and risk disclosures are described in the *State of Michigan Comprehensive Annual Financial Report*.

The Authority does not have a policy for controlling custodial credit risk. Of the \$12.3 million deposited in financial institutions, \$5.2 million was insured by the Federal Depository Insurance Corporation or the National Credit Union Administration, \$0.7 million

was collateralized, and \$6.4 million was uninsured and uncollateralized and therefore exposed to custodial credit risk at September 30, 2012.

- (2) Custodial Credit Risk for Investments - Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Authority, and are held by either the counterparty or the counterparty's trust department or agent but not in the Authority's name. The Authority does not have a policy for controlling custodial credit risk. At September 30, 2012, commercial paper of \$19.0 million from business-type activities (0.7% of the Authority's investments) was exposed to custodial credit risk because it was uninsured, not registered, and held by the counterparty.
- (3) Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Authority does not have a policy for controlling interest rate risk. The Authority's investment objective is the preservation of capital while managing the cash flow requirements to meet debt service payments to bondholders and other obligations as required. Investment timing for managing cash flow requirements is relative to the rates in securities at the time each investment decision is required to be made. To the extent possible, the Authority considers laddering investment maturities to meet cash flow requirements. Other than to keep all funds not required for immediate use in cash, there is no practical method to mitigate interest rate risk to hedge the rise of interest rates. Also, the Authority makes investments in accordance with applicable statutory and bond indenture provisions.

At September 30, 2012, the average maturities of investments were as follows:

Type of Investment	Fair Value	Investment Maturities			
		Less Than 1 Year	1 to 5 Years	6 to 10 Years	More than 10 Years
<u>Governmental Activities</u>					
Government money market funds	\$ 233,347,778	\$ 233,347,778	\$	\$	\$
Repurchase agreement	37,801,532			37,801,532	
State of Illinois general obligation bonds	34,001,893		34,001,893		
Total Governmental Activities	<u>\$ 305,151,204</u>	<u>\$ 233,347,778</u>	<u>\$ 34,001,893</u>	<u>\$ 37,801,532</u>	<u>\$ 0</u>
<u>Business-Type Activities</u>					
Government money market funds	\$ 1,517,122,591	\$ 1,517,122,591	\$	\$	\$
Repurchase agreements	605,776,828		21,410,551	43,970,979	540,395,298
Commercial paper	18,966,642	18,966,642			
U.S. Treasury bills	6,999,475	6,999,475			
U.S. Treasury notes	9,353,943	9,353,943			
U.S. Treasury bonds	5,000		5,000		
U.S. Treasury state and local government series	44,351,246	4,024,795	18,200,782	22,125,669	
U.S. government agency securities	169,254,528	13,259,139	52,317,063	76,655,665	27,022,661
State of Michigan general obligation bonds	70,498,464		21,724,854	48,773,610	
Total Business-Type Activities	<u>\$ 2,442,328,718</u>	<u>\$ 1,569,726,585</u>	<u>\$ 113,658,250</u>	<u>\$ 191,525,923</u>	<u>\$ 567,417,960</u>
<u>Fiduciary Fund</u>					
Government money market funds	\$ 9,110,479	\$ 9,110,479			

- (4) Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority's policy limits funds to \$150 million with any single issuer, except when the investments are collateralized; requires investments to be in the top three rating categories provided by S&P, Moody's, or Fitch; requires minimum levels of 102% of specific collateral for repurchase agreements; and allows exceptions to these requirements only with executive management approval.

At September 30, 2012, the credit quality ratings of debt securities, excluding U.S. government securities of \$60.7 million which are not considered to have credit risk, were as follows:

Type of Investment	Fair Value	Rating	Rating Organization
<u>Governmental Activities</u>			
Governmental money market funds	\$ 233,347,778	AAAm	S&P
Repurchase agreement	37,801,532	BBB	S&P
State of Illinois general obligation bonds	34,001,893	A	S&P
Total Governmental Activities	<u>\$ 305,151,204</u>		
<u>Business-Type Activities</u>			
Governmental money market funds	\$ 1,517,122,591	AAAm	S&P
Repurchase agreement	142,643,795	A	S&P
Repurchase agreement	272,597,926	BBB	S&P
Repurchase agreement	125,153,577	Aa3	S&P
Repurchase agreement	43,970,979	Aa1	Moody's
Repurchase agreement	20,910,551	A-	S&P
Repurchase agreement	500,000	Baa1	Moody's
Commercial paper	17,567,316	A-1	S&P
Commercial paper	1,399,326	A-1+	S&P
U.S. government agency securities	169,254,528	AA+	S&P
State of Michigan general obligation bonds	70,498,464	AA-	S&P
Total Business-Type Activities	<u>\$ 2,381,619,053</u>		
<u>Fiduciary Fund</u>			
Governmental money market funds	\$ 9,110,479	AAAm	S&P

- (5) Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributable to the magnitude of the Authority's investments with a single issuer. The Authority's policy limits funds to \$150 million with any single issuer, except when the investments are collateralized; requires investments to be in the top three rating categories provided by S&P, Moody's, or Fitch; requires minimum levels of 102% of specific collateral for repurchase agreements; and allows exceptions to these requirements only with executive management approval.

At September 30, 2012, the Authority had investments of 5% or more of the Authority's total investments by fund activity type in the following issuers, excluding investments issued or explicitly guaranteed by the U.S. government and mutual funds, which are excluded from this risk by GASB:

Type of Investment/Name of Issuer	Fair Value	Percent of Investments
<u>Governmental Activities</u>		
Repurchase agreement - Hypo Public Finance Bank/Depfa	\$ 37,801,532	12%
State of Illinois general obligation bonds	\$ 34,001,893	11%
<u>Business-Type Activities</u>		
Repurchase agreement - Citigroup Global Markets	\$142,643,795	6%
Repurchase agreement - Hypo Public Finance Bank/Depfa	\$180,217,978	7%
Repurchase agreement - JP Morgan	\$125,153,577	5%
U.S. government agency securities - Federal Home Loan Mortgage Corporation	\$125,711,105	5%

Note 4 Receivable From Primary Government

The receivable from primary government of \$1,063.1 million consisted of the following at September 30, 2012:

a. Unemployment Obligation Assessment Debt Service Fund

The receivable from primary government recorded in the Unemployment Obligation Assessment Debt Service Fund relates to amounts owed to the Authority for obligation assessment collections received by LARA but not yet transferred to the Authority. The receivable to pay for the corresponding bonds payable disclosed in Note 8 was \$30.6 million at September 30, 2012.

The statement of net assets for the governmental activities reported a receivable from the primary government totaling \$35.8 million. This additional receivable of \$5.2 million when compared to the Unemployment

Obligation Assessment Debt Service Fund receivable represents amounts recognized as earned under the economic resources measurement focus and accrual basis of accounting in the statement of net assets. The Unemployment Obligation Assessment Debt Service Fund utilizes the current financial resources measurement focus and modified accrual basis of accounting, which does not provide for recognition of the \$5.2 million in revenue because it is not available within the first 60 days after the balance sheet date.

b. Municipal Bond Fund - State Revolving Subfund

The receivable from the State of Michigan recorded in the Municipal Bond Fund - State Revolving Subfund relates to amounts owed to the Authority for bonds issued by the State in 1992 and 1993 and placed into State Revolving Subfund reserves to secure bonds issued under that program. The receivable to pay for the corresponding bonds payable disclosed in Note 8 was \$3.1 million at September 30, 2012.

c. Municipal Bond Fund - School Loan Revolving Subfund

The receivable from the State of Michigan recorded in the Municipal Bond Fund - School Loan Revolving Subfund is collateralized by two different sources: school districts that previously borrowed from the School Bond Loan Fund, which is a restricted subfund of the State of Michigan's General Fund, and school districts that have borrowed through the School Loan Revolving Subfund. The receivable to pay for the corresponding bonds payable disclosed in Note 8 was \$1,024.3 million at September 30, 2012.

Note 5 Notes Receivable

The notes receivable of \$700.6 million consisted of the following at September 30, 2012:

a. Municipal Bond Fund

The Authority originated loans to public schools to meet the schools' immediate cash flow needs for spending purposes from the proceeds of its State aid and tax anticipation notes. Collections of the receivable for the notes outstanding are used to pay for the corresponding notes payable

disclosed in Note 8. The balance of notes receivable was \$666.7 million at September 30, 2012. The notes receivable bore interest ranging from 0.27% to 1.46% during fiscal year 2011-12.

b. Non-Major Fund - Public School Academy Facilities Fund

The Authority originated loans to public school academies to meet the academies' immediate cash flow needs for operating purposes from the proceeds of its public school academy facilities notes. Collections of the receivable for the notes outstanding are used to pay for the corresponding notes payable disclosed in Note 8. The balance of notes receivable was \$33.9 million at September 30, 2012. The notes receivable bore interest ranging from 2.52% to 3.69% during fiscal year 2011-12.

Note 6 Loans Receivable, Net

Net loans receivable of \$4,099.7 million consisted of the following at September 30, 2012:

a. Municipal Bond Fund - Local Municipalities Subfund

The loans receivable consist of \$26.4 million from public school academies and \$377.5 million from Detroit Public Schools for fiscal year 2011-12. Collections of the receivable for the loans outstanding are used to pay for the corresponding bonds payable disclosed in Note 8. Scheduled repayments of \$36.5 million are expected to be collected during fiscal year 2012-13.

b. Municipal Bond Fund - State Revolving Subfund

The State Revolving Subfund has made commitments to municipalities to loan funds for construction of publicly owned water pollution control facilities and drinking water projects. These loans are primarily secured by system revenues of local municipalities, limited tax general obligation pledges, revenue-sharing pledge agreements, unlimited tax general obligations, and/or reserve funds. Amounts committed for the Clean Water Program were \$3,487.3 million and, as of September 30, 2012, loans of \$1,941.5 million were outstanding. Amounts committed for the Drinking Water Program were \$639.9 million and, as of September 30, 2012, loans of \$415.2 million were outstanding. Scheduled repayments of \$179.2 million are expected to be collected during fiscal year 2012-13.

c. Municipal Bond Fund - Strategic Water Quality Initiatives Subfund

The Strategic Water Quality Initiatives Subfund has made commitments to municipalities to loan funds for purposes, such as footing drain disconnects and septic system upgrades, that are generally not eligible to be financed through the State Revolving Subfund. These loans are primarily secured by local municipalities' limited or unlimited tax general obligations or system revenue, and some are additionally secured by revenue-sharing pledge agreements and/or reserve funds. Amounts committed were \$22.6 million as of September 30, 2012, and receivables outstanding were \$13.2 million. Scheduled repayments of \$0.7 million are expected to be collected during fiscal year 2012-13.

d. Student Loan Fund

Loans include educational loans made under the Federal Family Education Loan Program (FFELP) to students (Stafford Loans), to parents of dependent undergraduates (PLUS Loans), and to borrowers consolidating certain student loans (Consolidation Loans). These loans are federally insured. The terms of federal loans, which vary, generally provide for repayment in monthly installments of principal and interest over a period of up to 10 years. Loans also include education loans made under the Authority's Michigan Alternative Student Loan (MI-LOAN) Program, which are not federally insured. The following are descriptions of the loans and adjustments that comprise the net loans receivable of \$1,326.0 million:

- (1) Stafford Loans - Stafford Loans may be subsidized or unsubsidized. Interest is paid on subsidized Stafford Loans during the enrolled and grace periods by the USDOE, whereas borrowers must either pay interest from the time of the loan or capitalize the interest until repayment begins on unsubsidized Stafford Loans. Stafford Loans may bear fixed or variable rate interest with fixed rates ranging primarily from 5.6% to 6.8% and variable rates equivalent to the annual average U.S. Treasury bill rate, plus a factor of up to 3.25% depending on the status and/or date of disbursement of the loan.

- (2) PLUS Loans - The PLUS interest rate has been a fixed rate of 8.5% since July 1, 2006. Prior to July 1, 2006, interest rates on the PLUS Loans varied annually each July 1, based on the bond equivalent rate for the 91-day U.S. Treasury bill or one-year constant maturity, plus a factor of either 3.25% or 3.10%, depending on when borrowers obtained their first PLUS Loans.
- (3) Consolidation Loans - Interest rates on Consolidation Loans are fixed, calculated by rounding the weighted average of the interest rates on the loans consolidated to the nearest 1/8 of 1%, or variable based on the 91-day U.S. Treasury bill, plus 3.10%, not to exceed 8.25%.
- (4) MI-LOAN Program Loans - Under the Authority's MI-LOAN Program, loans are made to assist students in meeting the costs of education at a degree-granting college or university located in Michigan. Borrowers or eligible co-signers must meet standards of credit established by the Authority. As of September 30, 2012, the MI-LOAN Program balance outstanding was \$199.9 million. The MI-LOAN Program's fixed interest rate loans ranged from 5.95% to 9.50%. The MI-LOAN Program's variable interest rate was 1.64% at September 30, 2012. Repayment begins within 60 days of the disbursement and extends over a maximum period of 25 years.
- (5) Allowance - The Authority's Stafford Loans, PLUS Loans, and Consolidation Loans are guaranteed primarily by the Authority's Michigan Guaranty Agency and by Great Lakes Higher Education Guaranty Corporation and reinsured by the USDOE. Historically, the Authority has recorded an allowance to estimate the unguaranteed portion of future loan defaults. As of September 30, 2012, the Authority's recorded allowance for FFELP loans was \$1.8 million.

MI-LOAN Program loans are not guaranteed or reinsured; therefore, the Authority estimates future loan defaults and records an allowance for the estimate. As of September 30, 2012, the Authority's recorded allowance for the MI-LOAN Program loans was \$5.8 million.

- (6) Reserve Fees - The MI-LOAN Program loan origination fees, called reserve fees, are received and retained by the Authority for all MI-LOAN Program loans. The MI-LOAN Program reserve fee is 3.5% and is capitalized and recognized as an increase to interest income over the life of the loan. For fiscal year 2011-12, \$0.9 million of reserve fees was realized.
- (7) Unamortized Premiums - Also included in the loans receivable are premiums paid to the financial institutions for loans purchased. These premiums are amortized over 48 months as a reduction to interest income. For fiscal year 2011-12, \$0.6 million of premiums was amortized. As of September 30, 2012, the unamortized premiums balance was zero.

Below is a summary of the components of the student loans receivable:

Components	2011-12
Loans receivable	\$1,362,418,191
Cumulative loan loss and projected loss for fiscal year 2012-13	(46,361,386)
Loan origination fees receivable	(839,481)
MI-LOAN Program reserve fees less the unamortized deferred reserve fees	10,795,725
Loans receivable, net	<u>\$1,326,013,049</u>

- (8) Status of Student Loan Programs - On February 15, 2008, origination of new MI-LOAN Program loans was suspended. Also, the U.S. Congress enacted legislation in the form of the Health Care and Education Reconciliation Act of 2010 on March 30, 2010 that eliminated the authorization to originate FFELP loans after June 30, 2010.

#### Note 7 Bonds Receivable

Bonds receivable consist of receivables from governmental units to pay corresponding Authority bonds as disclosed in Note 8. During the fiscal year,

the Authority purchased local governmental units' municipal bonds for \$243.4 million from the proceeds of the Authority's bond issuance. The annual requirements for governmental units to repay their bonds to the Authority as of September 30, 2012, including principal and interest, were as follows:

Fiscal Years Ending	Principal	Interest	Total
2013	\$100,184,640	\$ 43,306,118	\$ 143,490,758
2014	88,024,270	53,659,039	141,683,309
2015	72,935,147	48,589,975	121,525,122
2016	47,930,000	28,671,938	76,601,938
2017	43,105,000	26,750,313	69,855,313
2018 - 2022	190,465,000	107,884,104	298,349,104
2023 - 2027	129,245,000	67,363,724	196,608,724
2028 - 2032	103,870,000	34,850,764	138,720,764
2033 - 2037	61,230,000	8,383,784	69,613,784
2038 and thereafter	6,005,000	494,515	6,499,515
Total unadjusted bonds and interest	\$842,994,057	\$419,954,275	\$1,262,948,332
Amortized premium/discounts	6,137,122		6,137,122
Unamortized accretion for capital appreciation bonds	(11,424,235)		(11,424,235)
Total	<u>\$837,706,945</u>	<u>\$419,954,275</u>	<u>\$1,257,661,219</u>

## Note 8 Bonds and Notes Payable, Net

a. Net bonds and notes payable of \$10,710.5 million consisted of the following at September 30, 2012:

Series	Date of Issue	Original Issue	Interest Rate Percentage (a)	Maturity Dates	Amounts Outstanding as of September 30, 2012
<b>Tobacco Settlement Debt Service Fund</b>					
<b>Tobacco Settlement Asset-Backed Bonds:</b>					
Series 2006A - Serial	May 17, 2006	\$ 363,115,000	7.31%	June 1, 2034	\$ 335,250,000
Series 2007A - Serial	August 20, 2007	\$ 480,125,000	5.125% to 6.00%	June 1, 2047	478,135,000
Series 2007B - Capital appreciation (b)	August 20, 2007	\$ 35,649,948	7.25%	June 1, 2052	865,290,000
Series 2007C - Capital appreciation (b)	August 20, 2007	\$ 7,216,749	7.5%	June 1, 2052	195,100,000
Series 2008A - Serial	July 7, 2008	\$ 114,860,000	6.875%	June 1, 2024	114,860,000
Series 2008B - Capital appreciation (b)	July 7, 2008	\$ 29,874,650	8.5%	June 1, 2046	700,625,000
Series 2008C - Capital appreciation (b)	July 7, 2008	\$ 57,673,814	8.875%	June 1, 2058	4,395,870,000
<b>Total Tobacco Settlement Asset-Backed Bonds</b>					<b>\$ 7,085,130,000</b>
<b>Unemployment Obligation Assessment Debt Service Fund</b>					
<b>Unemployment Obligation Assessment Revenue Bonds:</b>					
Series 2012A	June 27, 2012	\$ 1,462,490,000	2% to 5%	July 1, 2019	\$ 1,462,490,000
Series 2012B	June 27, 2012	\$ 1,204,645,000	5.00%	July 1, 2023	1,204,645,000
Series 2012C	June 27, 2012	\$ 250,000,000	Variable 0.18% (c)	July 1, 2024	250,000,000
<b>Total Unemployment Obligation Assessment Revenue Bonds</b>					<b>\$ 2,917,135,000</b>
<b>Municipal Bond Fund - Local Municipalities Subfund</b>					
<b>Municipal State Aid and Tax Anticipation Notes:</b>					
Series 2012B-1	August 20, 2012	\$ 224,055,000	2.00%	August 20, 2013	\$ 224,055,000
Series 2012B-2	August 20, 2012	\$ 230,045,000	2.00%	August 20, 2013	230,045,000
Series 2012B-3	August 20, 2012	\$ 191,470,000	1.46%	August 20, 2013	191,470,000
Series 2012C	September 10, 2012	\$ 6,000,000	1.62%	January 21, 2013	6,000,000
Series 2012A TAN	April 4, 2012	\$ 14,450,000	Variable 3.45% (d)	April 1, 2013	11,755,000
<b>Local Government Loan Program Revenue Bonds:</b>					
Series 1986A	February 1987 to	\$ 39,475,000	7.125% to 8.625%	November 1, 2013	30,000
Series 1991C - Capital appreciation (b)	June 27, 1991	\$ 35,615,074	7.3%	June 15, 2015	22,395,000
Series 1993B	July 13, 1993	\$ 30,925,000	5.65% to 5.7%	May 1, 2017	330,000
Series 1993C	June 17, 1993	\$ 2,275,000	5.8% to 5.9%	August 1, 2013	35,000
Series 1993D	August 26, 1993	\$ 16,385,000	5.55%	May 1, 2013	90,000
Series 1994B	March 30, 1994	\$ 13,080,000	5.8%	November 1, 2013	185,000
Series 1994F	October 13, 1994	\$ 6,935,000	6.65%	November 1, 2013	190,000
Series 1994G	December 21, 1994	\$ 64,770,000	6.7% to 7.1%	November 1, 2013	535,000
Series 1994G - Capital appreciation (b)	December 21, 1994	\$ 7,379,737	6.85% to 7.1%	May 1, 2020	30,065,000
Series 1995A	June 22, 1995	\$ 15,205,000	6%	November 1, 2014	110,000
Series 1997A	April 29, 1997	\$ 7,705,000	5.85% to 5.875%	November 1, 2016	270,000
Series 1997B	August 14, 1997	\$ 17,375,000	5.3% to 5.5%	November 1, 2020	1,420,000
Series 1997C	October 30, 1997	\$ 16,335,000	5.2% to 5.55%	November 1, 2020	1,195,000
Series 1997D	December 22, 1997	\$ 9,300,000	5.15% to 5.3%	November 1, 2015	750,000
Series 1998A	June 16, 1998	\$ 16,100,000	5% to 5.2%	November 1, 2019	1,145,000
Series 1999A	February 9, 1999	\$ 10,910,000	4.7% to 4.8%	November 1, 2013	440,000
Series 1999B	April 28, 1999	\$ 38,605,000	4.65% to 4.85%	November 1, 2016	9,610,000
Series 1999C	June 24, 1999	\$ 16,685,000	5.1% to 5.375%	November 1, 2019	415,000
Series 1999D	November 17, 1999	\$ 8,255,000	5.5% to 6%	November 1, 2020	1,390,000
Series 2000A	May 17, 2000	\$ 10,815,000	5.55% to 6%	November 1, 2020	2,090,000
Series 2000B	November 28, 2000	\$ 5,905,000	5.1% to 5.625%	November 1, 2025	2,420,000
Series 2001B	July 12, 2001	\$ 10,065,000	4.55% to 4.85%	November 1, 2015	1,830,000
Series 2002A	July 1, 2002	\$ 30,060,000	4% to 5%	November 1, 2029	1,605,000
Series 2002B	November 1, 2002	\$ 16,790,000	3.625% to 5%	November 1, 2032	10,740,000
Series 2003A	April 7, 2003	\$ 3,980,000	4% to 4.3%	May 1, 2016	1,415,000
Series 2003B	September 30, 2003	\$ 19,665,000	3.7% to 6%	November 1, 2023	11,760,000
Series 2003C	September 30, 2003	\$ 160,000,000	5%	May 1, 2014	41,820,000
Series 2004A	February 18, 2004	\$ 41,155,000	3.25% to 6%	May 1, 2034	15,015,000
Series 2004B	May 13, 2004	\$ 26,830,000	4% to 5%	November 1, 2024	4,665,000
Series 2004C	December 16, 2004	\$ 9,985,000	3.625% to 4.25%	May 1, 2014	510,000
Series 2006A	May 10, 2007	\$ 9,825,000	4.25% to 5%	May 1, 2019	5,830,000
Series 2007A	March 29, 2007	\$ 21,875,000	4% to 5%	May 1, 2029	17,640,000
Series 2007B	August 3, 2007	\$ 98,435,000	4.25% to 5.75%	December 1, 2034	47,205,000
Series 2007C	December 19, 2007	\$ 31,080,000	3.5% to 5%	May 1, 2031	28,310,000
Series 2007D	December 28, 2007	\$ 19,335,000	4% to 5%	November 1, 2032	14,755,000
Series 2008A	June 26, 2008	\$ 27,000,000	Variable 0.32% (c)	November 1, 2037	26,105,000
Series 2009A	March 18, 2009	\$ 28,430,000	4% to 5.75%	May 1, 2024	28,430,000
Series 2009B	March 31, 2009	\$ 34,020,000	3.5% to 7%	November 1, 2028	24,940,000
Series 2009C	September 23, 2009	\$ 45,795,000	3% to 5%	May 1, 2024	23,865,000
Series 2010A	March 31, 2010	\$ 27,005,000	3% to 5%	May 1, 2022	19,850,000
Series 2010B	May 18, 2010	\$ 38,245,000	2.8% to 6.7%	May 1, 2027	36,550,000
Series 2010C	May 25, 2010	\$ 6,710,000	5.05% to 6.55%	May 1, 2030	6,710,000
Series 2010D	September 30, 2010	\$ 14,290,000	2.25% to 5%	June 1, 2030	9,165,000
Series 2010E	December 16, 2010	\$ 100,000,000	5.129% to 8.369%	November 1, 2035	100,000,000
Series 2011A	March 3, 2011	\$ 31,565,000	2.75% to 6.375%	November 1, 2025	29,825,000
Series 2011B	April 13, 2011	\$ 8,000,000	3.5% to 6%	November 1, 2035	8,000,000
Series 2011C	May 3, 2011	\$ 7,710,000	6.2% to 6.5%	May 1, 2026	7,710,000
Series 2011D	June 29, 2011	\$ 8,975,000	2% to 5%	May 1, 2020	8,875,000
Series 2011E	September 20, 2011	\$ 1,775,000	2% to 4.75%	May 1, 2026	1,710,000
Series 2011F	October 28, 2011	\$ 14,960,000	3% to 5.25%	October 1, 2041	14,930,000

Series	Date of Issue	Original Issue	Interest Rate Percentage (a)	Maturity Dates	Amounts Outstanding as of September 30, 2012
Series 2012B	August 8, 2012	\$ 18,880,000	3% to 4%	November 1, 2028	\$ 18,880,000
Series 2012C	August 23, 2012	\$ 129,520,000	3% to 5%	November 1, 2032	129,520,000
<b>School Loan Revenue Bonds:</b>					
Series 2003A	March 25, 2003	\$ 197,295,000	0.0525	June 1, 2013	53,635,000
Series 2007A	May 10, 2007	\$ 74,645,000	5.222% to 5.252%	June 1, 2015	74,645,000
Series 2011	October 13, 2011	\$ 238,100,000	5% to 5.5%	June 1, 2021	225,530,000
Series 2012	May 17, 2012	\$ 134,585,000	2% to 5%	June 1, 2020	134,585,000
Series 2001A, Detroit Academy of Arts & Sciences	May 16, 2001	\$ 30,020,000	7.5% to 8.0%	October 1, 2031	26,355,000
<b>Total Municipal Bond Fund - Local Municipalities Subfund</b>					<b>\$ 1,951,350,000</b>
<b>Municipal Bond Fund - State Revolving Subfund:</b>					
Series 1998A, Clean Water Revolving Fund Revenue Bonds	July 15, 1998	\$ 151,165,000	4.75% to 5.25%	October 1, 2020	\$ 9,230,000
Series 2002R, Clean Water Revolving Fund Revenue Bonds	August 22, 2002	\$ 469,100,000	5.25% to 5.5%	October 1, 2016	146,340,000
Series 2002R, Drinking Water Revolving Fund Revenue Bonds	August 22, 2002	\$ 109,145,000	5.25% to 5.5%	October 1, 2016	32,835,000
Series 2004A, Clean Water Revolving Fund Revenue Bonds	April 21, 2004	\$ 286,605,000	4.75% to 5%	October 1, 2026	229,325,000
Series 2004A, Drinking Water Revolving Fund Revenue Bonds	April 21, 2004	\$ 67,895,000	5% to 5.25%	October 1, 2026	53,725,000
Series 2005A, Clean Water Revolving Fund Revenue Bonds	July 26, 2005	\$ 103,630,000	4.75% to 5%	October 1, 2027	86,445,000
Series 2005A, Drinking Water Revolving Fund Revenue Bonds	July 26, 2005	\$ 79,480,000	4.75% to 5%	October 1, 2027	66,530,000
Series 2005R, Clean Water Revolving Fund Revenue Bonds	July 26, 2005	\$ 72,570,000	5%	October 1, 2020	62,150,000
Series 2006A, Clean Water Revolving Fund Revenue Bonds	November 2, 2006	\$ 150,000,000	4.2% to 5%	October 1, 2028	130,885,000
Series 2007A, Clean Water Revolving Fund Revenue Bonds	October 25, 2007	\$ 278,040,000	4.25% to 5%	October 1, 2029	254,520,000
Series 2009A, Clean Water Revolving Fund Revenue Bonds	June 30, 2009	\$ 150,805,000	3% to 5%	October 1, 2029	141,645,000
Series 2010A, Clean Water Revolving Fund Revenue Bonds	March 18, 2010	\$ 178,740,000	2.25% to 5%	October 1, 2030	174,315,000
Series 2010R, Clean Water Revolving Fund Revenue Bonds	March 18, 2010	\$ 67,420,000	5%	October 1, 2020	55,070,000
Series 2011R, Clean Water Revolving Fund Revenue Bonds	November 3, 2011	\$ 225,860,000	2% to 5%	October 1, 2024	225,860,000
Series 2011R, Drinking Water Revolving Fund Revenue Bonds	November 3, 2011	\$ 56,860,000	2% to 5%	October 1, 2024	56,860,000
Series 2012A, Clean Water Revolving Fund Revenue Bonds	April 26, 2012	\$ 131,410,000	3% to 5%	October 1, 2032	131,410,000
Series 2012R, Clean Water Revolving Fund Revenue Bonds	July 10, 2012	\$ 89,595,000	5%	October 1, 2021	89,595,000
Series 2012R, Drinking Water Revolving Fund Revenue Bonds	July 10, 2012	\$ 16,755,000	5%	October 1, 2020	16,755,000
<b>Total Municipal Bond Fund - State Revolving Subfund</b>					<b>\$ 1,963,495,000</b>
<b>Municipal Bond Fund - School Loan Revolving Subfund:</b>					
Series 2010A, Federally Taxable Bonds SLRF Revenue Bonds	December 15, 2010	\$ 150,000,000	Variable 0.22% (c)	September 1, 2050	\$ 150,000,000
Series 2010B, Federally Taxable Bonds SLRF Revenue Bonds	December 15, 2010	\$ 150,000,000	Variable 0.18% (c)	September 1, 2050	150,000,000
Series 2010C, Federally Taxable Bonds SLRF Revenue Bonds	December 15, 2010	\$ 150,000,000	Variable 0.19% (c)	September 1, 2050	150,000,000
Series 2010D, Federally Taxable Bonds SLRF Revenue Bonds	December 15, 2010	\$ 85,000,000	4.996% to 6.496%	September 1, 2025	85,000,000
<b>Total Municipal Bond Fund - School Loan Revolving Subfund</b>					<b>\$ 535,000,000</b>
<b>Student Loan Fund</b>					
<b>Student Loan Bonds:</b>					
Series XII-N, Student Loan Refunding Revenue Bonds	September 26, 1996	\$ 14,050,000	Variable 0.560% (e)	September 1, 2025	\$ 6,950,000
Series XII-R1-R2, Student Loan Revenue Bonds	July 28, 1999	\$ 80,000,000	Variable 0.543% (e)	March 1, 2029	80,000,000
Series XII-U, Student Loan Revenue Bonds	July 27, 2000	\$ 53,300,000	Variable 0.298% (e)	September 1, 2030	24,250,000
Series XII-Z2-Z3, Student Loan Revenue Bonds	July 15, 2003	\$ 120,000,000	Variable 0.281% (e)	September 1, 2033	120,000,000
Series XVII-H5-H6, Student Loan Revenue Bonds and Refunding Revenue Bonds	July 16, 2002	\$ 295,000,000	Variable 0.835% (e)	March 1, 2037	124,800,000
Series XVII-K2,K4-K7, Student Loan Revenue Bonds	July 14, 2004	\$ 508,350,000	Variable 0.829% (e)	March 1, 2039	206,950,000
Series XVII-L, Student Loan Revenue Bonds and Refunding Revenue Bonds	July 14, 2004	\$ 25,000,000	Variable 0.059% (e)	March 1, 2039	50,000
Series XVII-M1-M2, Student Loan Refunding Revenue Bonds	July 13, 2005	\$ 115,100,000	Variable 0.861% (e)	September 1, 2036	85,450,000
Series XVII-N1-N5,N7, Student Loan Revenue Bonds	July 13, 2005	\$ 485,000,000	Variable 0.860% (e)	March 1, 2040	288,650,000
Series 20-A Senior Lien, Student Loan Refunding Revenue Bonds	September 26, 2007	\$ 64,500,000	Variable 0.340% (c)	September 1, 2042	32,425,000
Series 20-B Subordinate Lien, Student Loan Refunding Revenue Bonds	September 26, 2007	\$ 2,000,000	Variable 0.425% (c)	September 1, 2042	2,000,000
<b>Student Loan Notes:</b>					
Straight-A Funding, LLC Deferred Interest Variable Funding Note	June 29, 2010	\$ 1,013,098,231	Variable 0.230% (d)	January 19, 2014	678,235,370
<b>Total Student Loan Fund</b>					<b>\$ 1,649,760,370</b>
<b>Non-Major Funds</b>					
<b>Public School Academy Facilities Notes:</b>					
Series 2012B-1	August 20, 2012	\$ 31,795,000	1.41%	August 20, 2013	\$ 31,795,000
Series 2012B-2	August 20, 2012	\$ 8,755,000	2.17%	August 20, 2013	8,755,000
<b>Total Non-Major Funds</b>					<b>\$ 40,550,000</b>

(a) Interest rates are reported as either ranges for serial and term bonds and notes for outstanding amounts as of September 30, 2012 or the September 30, 2012 effective rates for variable rate bonds and notes. The student loan variable rate bonds with multiple issues within a series are reported as September 30, 2012 effective rates weighted based on amounts outstanding.

(b) Capital appreciation bonds are reported at ultimate maturity value.

(c) Interest rate changes every 7 days.

(d) Interest rate changes monthly.

(e) Interest rate changes every 35 days.

- b. Annual debt service requirements for the Authority to service bond and note debt outstanding as of September 30, 2012, including both principal and interest, are as follows (in millions):

Fiscal Years Ending	Tobacco Settlement Debt Service Fund		Unemployment Obligation Assessment Debt Service Fund		Municipal Bond Fund - Local Municipalities Subfund	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 9.8	\$ 60.5	\$ 171.0	\$ 128.5	\$ 801.2	\$ 73.1
2014	11.2	59.8	176.3	123.2	163.6	56.8
2015	12.6	59.1	188.2	114.6	128.6	49.6
2016	14.1	58.3	204.1	105.2	88.5	43.8
2017	15.8	57.4	222.0	94.9	85.8	39.8
2018 - 2022	102.9	270.6	1,395.6	287.2	365.0	138.0
2023 - 2027	228.1	208.8	560.0	13.6	136.6	73.0
2028 - 2032	162.3	149.8			114.8	37.2
2033 - 2037	130.9	92.6			61.2	8.4
2038 - 2042	105.4	60.3			6.0	0.5
2043 - 2047	835.7	24.9				
2048 - 2052	1,060.4					
2053 - 2057						
2058 - 2062	4,395.9					
Total unadjusted bonds and interest	\$ 7,085.1	\$ 1,102.2	\$ 2,917.1	\$ 867.2	\$ 1,951.4	\$ 520.4
Unamortized premium			377.8		42.0	
Unamortized discounts	(17.2)				(0.2)	
Deferred amount on refunding	(1.1)		(0.5)		2.0	
Unamortized accretion for capital appreciation bonds	(5,968.9)				(11.4)	
Total	\$ 1,098.0	\$ 1,102.2	\$ 3,294.5	\$ 867.2	\$ 1,983.7	\$ 520.4

- c. Changes in long-term debt for the fiscal year ended September 30, 2012 are as follows:

	Beginning Balance	Additions	Reductions
Tobacco Settlement Asset-Backed Bonds	\$ 7,089,690,000	\$	\$ (4,560,000)
Unemployment Obligation Assessment Bonds		6,240,135,000	(3,323,000,000)
Local Municipalities Subfund State Aid and Tax Anticipation Notes	940,145,000	676,670,000	(953,490,000)
Local Municipalities Subfund Local Government Loan Program Bonds	707,380,000	243,360,000	(177,465,000)
Local Municipalities Subfund School Loan Revenue Bonds	352,260,000	372,685,000	(210,195,000)
State Revolving Subfund	2,062,365,000	538,900,400	(637,770,400)
School Loan Revolving Subfund	535,000,000		
Student Loan Bonds	1,159,120,000		(187,595,000)
Student Loan Notes	845,981,978		(167,746,608)
Public School Academy Facilities Notes	47,825,000	44,195,000	(51,470,000)
Total bonds and notes payable	\$ 13,739,766,978	\$ 8,115,945,400	\$ (5,713,292,008)

Municipal Bond Fund - State Revolving Subfund		Municipal Bond Fund - School Loan Revolving Subfund		Student Loan Fund		Non-Major Funds		Totals	
Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
\$ 120.8	\$ 91.8	\$	\$ 6.0	\$ 140.4	\$ 8.3	\$ 40.6	\$ 0.4	\$ 1,283.8	\$ 368.6
122.8	88.0		6.0	558.2	7.3			1,032.2	341.1
131.2	81.6		6.0		6.8			460.6	317.8
131.4	75.1		6.0		6.8			438.1	295.2
134.7	68.4		6.0		6.8			458.2	273.5
642.5	243.9	41.0	27.6		34.2			2,547.1	1,001.6
463.3	107.5	44.0	9.3	15.5	34.0			1,447.4	446.6
206.1	20.7		4.5	134.3	31.7			617.5	244.0
10.6	0.3		4.5	279.6	27.5			482.3	133.4
			4.5	521.9	9.2			633.3	74.6
			4.5					835.7	29.5
		450.0	2.7					1,510.4	2.8
								4,395.9	0.0
\$ 1,963.5	\$ 777.2	\$ 535.0	\$ 87.7	\$ 1,649.8	\$ 172.7	\$ 40.6	\$ 0.4	\$ 16,142.4	\$ 3,529.0
148.3								568.1	
(18.3)		(3.6)		19.1				(17.4)	
								(2.4)	
								(5,980.3)	
<u>\$ 2,093.4</u>	<u>\$ 777.2</u>	<u>\$ 531.4</u>	<u>\$ 87.7</u>	<u>\$ 1,668.9</u>	<u>\$ 172.7</u>	<u>\$ 40.6</u>	<u>\$ 0.4</u>	<u>\$ 10,710.5</u>	<u>\$ 3,529.0</u>

Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
\$ 7,085,130,000	\$ 9,840,000	\$ 7,075,290,000
2,917,135,000	171,010,000	2,746,125,000
663,325,000	663,325,000	
773,275,000	70,755,000	702,520,000
514,750,000	67,140,000	447,610,000
1,963,495,000	120,800,000	1,842,695,000
535,000,000		535,000,000
971,525,000	20,400,000	951,125,000
678,235,370	120,000,000	558,235,370
40,550,000	40,550,000	
<u>\$ 16,142,420,370</u>	<u>\$ 1,283,820,000</u>	<u>\$ 14,858,600,370</u>

d. Refinancing

In June 2010, the Authority borrowed \$1,013 million, as evidenced by a note with Straight-A Funding, LLC, to refinance certain of its outstanding student loan bonds. The Straight-A Conduit Program was an Asset-Backed Commercial Paper Conduit created by the Ensuring Continued Access to Student Loans Act (ECASLA) federal legislation and enhanced by a loan put feature with the USDOE and short-term liquidity from the Federal Financing Bank, if necessary. FFELP loans originated during the period October 1, 2003 through June 30, 2009 were eligible collateral for the Straight-A Conduit Program, but the advance rate for the note was 97% of the principal value of the pledged loans.

As of September 30, 2012, the Authority used the proceeds from the Straight-A note to redeem \$109.5 million of student loan bonds in fiscal year 2011-12, \$99.3 million of student loan bonds in fiscal year 2010-11, and \$693.8 million of student loan bonds in fiscal year 2009-10. The Authority did not use any proceeds to redeem bonds as of January 8, 2013 but anticipates possible use of proceeds for additional redemptions throughout fiscal year 2012-13. The Authority has \$104.5 million of Straight-A proceeds remaining as of September 30, 2012.

The interest expense of negative \$2.7 million reported in the Student Loan Fund includes interest expense of \$13.3 million reduced by the amortization of net deferred gains on refunded bonds of \$16.0 million, which is primarily attributable to the amortization of the deferred gain on bonds refunded with the Straight-A note. The Authority amortized the net deferred gain beginning in June 2010 and will continue to amortize the gain until maturity of the notes in January 2014.

e. Refunded Bonds

(1) Unemployment Obligation Assessment Debt Service Fund

On June 27, 2012, the Authority issued \$2,917.1 million in Unemployment Obligation Assessment Revenue Bonds, Series 2012A, 2012B, and 2012C with a true interest cost of 2.26% to refund \$3,323.0 million of outstanding Series 2011 bonds with a variable

interest rate. The net proceeds of \$3,301.2 million (after payment of \$3.1 million in letter of credit fees, remarketing agent fees, and other issuance costs) plus an additional \$100.0 million on deposit from the revenue fund from prior bonds and \$1.4 million on deposit in the bond proceeds fund from the prior bonds were used to pay debt service. Of the securities, \$3,326.1 million was deposited in the debt service fund for the prior bonds to pay the redemption price, and \$75.0 million was deposited in the Liquidity Reserve Fund held by the trustee under the indenture. As a result, the 2011 series bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net assets. The Authority completed the refunding to mitigate the interest rate risk associated with the variable rate 2011 series bonds and to restructure the debt into a longer-term obligation.

(2) Local Municipalities Subfund

(a) December 2001 Public School Academy Refund with 2011 Detroit Service Learning Academy Project Conduit Debt

On December 13, 2011, the Authority issued \$11.4 million in Public School Academy Limited Obligation Revenue and Revenue Refunding Bonds Detroit Service Learning Academy Project, Series 2011 within the Public School Academy Facilities Fund conduit debt with a true interest cost of 7.18% to refund \$10.5 million of outstanding Series 2001 Detroit YMCA Service Learning Academy Project with an average interest rate of 7.73% within the Local Municipalities Subfund. These bonds included \$1.0 million of new money proceeds. The refunding, which was undertaken by the Authority at the request of the Detroit Service Learning Academy, increased its total debt service payments over the next 25 years by \$3.0 million and achieved net present value savings of \$0.5 million, or approximately 5.18% of the refunded bonds. As a result, the 2001 series bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net assets.

(b) 2012 Long-Term Detroit Public Schools to Refund 2005B

On May 17, 2012, the Authority issued \$134.6 million in Revenue Bonds (School District of the City of Detroit), Series 2012 with a true interest cost of 2.94% to refund \$155.2 million of outstanding 2005 B series Revenue Bonds (School District of the City of Detroit) with an average interest rate of 5.00%. The net proceeds of \$145.3 million (after payment of \$1.3 million in underwriting fees and other issuance costs) plus an additional \$17.9 million from the debt service fund were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide payment on the 2005B series bonds on June 1, 2012. As a result, the 2005B series bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net assets. The refunding was undertaken by the Authority at the request of the School District of the City of Detroit in order to reduce its total debt service payments over the next 8 years by \$8.7 million and to achieve net present value savings of \$7.6 million, or 4.9% of the refunded bonds.

(c) 2012B Local Government Loan Program

On August 8, 2012, the Authority issued \$18.9 million in Local Government Loan Program Revenue Bonds, Series 2012B with a true interest cost of 2.35% to fully and partially refund \$19.3 million of outstanding issues 1999A, 1999C, 2000A, 2000B, 2001B, 2002A, and 2002B series Local Government Loan Program Revenue Bonds with an average interest rate of 5.02%. The net proceeds of \$19.7 million (after payment of \$0.3 million in underwriting fees, and other issuance cost) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with escrow agent to redeem the principal refunded amounts on September 7, 2012. The refunding was undertaken by the Authority at the request of the obligated borrowers in order to reduce total debt service payments over the next 16 years by \$2.4 million and to achieve net present value savings of \$2.2 million, or 11.39% of the refunded bonds.

(d) 2012C Local Government Loan Program

On August 23, 2012, the Authority issued \$129.5 million in Local Government Loan Program Revenue Bonds (City of Detroit Limited Tax General Obligation Local Project Bonds Third Lien), Series 2012C with an all-in true interest cost of 4.15% to, among other purposes, refund \$76.0 million of outstanding 2012A series Local Government Loan Program Revenue Bonds (City of Detroit Limited Tax General Obligation Local Project Bonds Third Lien) with an initial interest rate of 2.97%. The net proceeds of \$137.0 million (after payment of \$1.6 million in underwriting fees and other issuance cost) were used to redeem \$76.0 million of the series 2012A bonds and purchase \$60.5 of municipal obligations bonds. As a result, the 2012A series bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net assets. The transaction was undertaken by the Authority at the request of the City of Detroit to refinance a privately placed bond anticipation note that was put in place as part of a two-step financing process. While total debt service payments will increase by \$21.9 million over the next 14 years, there was a net present value savings on the refunding of \$3.1 million.

(3) State Revolving Subfund

(a) 2011 Refunding

On November 3, 2011, the Authority issued \$282.7 million in State Revolving Fund Revenue Bonds, composed of two series: \$225.9 million in Clean Water Revolving Fund Revenue Refunding Bonds, Series 2011, and \$56.9 million in Drinking Water Revolving Fund Revenue Refunding Bonds, Series 2011. The Bonds refunded a \$146.8 million portion of the outstanding Clean Water Revolving Fund Revenue Bonds, Series 2001; a \$134.0 million portion of Clean Water Revolving Fund Revenue Bonds, Series 2002; a \$15.6 million portion of Drinking Water Revolving Fund Revenue Bonds, Series 2001; and a \$51.8 million portion of Drinking Water Revolving Fund Revenue

Bonds, Series 2002. The Bonds were sold with a true interest cost of 2.52%, reducing total debt service payments over the next 12 years by \$38.8 million and garnering a net present value savings of \$25.1 million, or approximately 7.22% of the refunded bonds. A portion of the proceeds was used to redeem the Clean Water and Drinking Water 2001 Bonds on December 5, 2011, while the remaining proceeds were placed into an escrow account and used to redeem the Clean Water and Drinking Water Series 2002 Bonds on October 1, 2012.

(b) 2012 Refunding

On July 10, 2012, the Authority issued \$106.4 million in State Revolving Fund Revenue Bonds, composed of two series: \$89.6 million in Clean Water Revolving Fund Revenue Refunding Bonds, Series 2012, and \$16.8 million in Drinking Water Revolving Fund Revenue Refunding Bonds, Series 2012. The Bonds refunded a \$122.2 million portion of the outstanding Clean Water Revolving Fund Revenue Bonds, Refunding Series 2002, and a \$30.7 million portion of Drinking Water Revolving Fund Revenue Bonds, Refunding Series 2002. The Bonds were sold with a true interest cost of 1.83%, reducing total debt service payments over the next 9 years by \$39.3 million and garnering a net present value savings of \$28.3 million, or approximately 18.50% of the refunded bonds. Proceeds were placed into an escrow account and used to redeem the refunded bonds on October 1, 2012.

f. Defeased Bonds

In prior years, the Authority defeased certain Municipal Bond Fund bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. The amount of bonds outstanding considered defeased was \$346.2 million at September 30, 2012.

Note 9 Conduit Debt Obligations

The Authority has issued limited obligation bonds that are not recorded as liabilities in these statements because the borrowings are, in substance, debts of other entities. The Authority has no obligation for this debt. Typically, these borrowings are repayable only from the repayment of loans, undispersed proceeds, and related interest earnings.

The Authority issues limited obligation bonds to finance loans to private or nonpublic, nonprofit institutions of higher education, qualified public or private educational facilities, and healthcare providers for capital improvements. The Authority accounts for the issued limited obligation bonds in the Higher Education Facilities Fund, Public School Academy Facilities Fund, Healthcare Finance Fund, and Michigan Strategic Fund.

The Authority has defeased, in substance, certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Economic gains and accounting gains and losses upon in-substance defeasance inure to the benefit of the facility for which the bonds were issued and, accordingly, are not reflected in the Authority's financial statements.

The total outstanding limited obligation bonds and defeased and undefeased portions as of September 30, 2012 were as follows:

	Higher Education Facilities Fund	Public School Academy Facilities Fund	Healthcare Finance Fund	Michigan Strategic Fund	Total
Defeased	\$ 19,510,000	\$	\$ 566,465,000	\$	\$ 585,975,000
Undefeased	600,834,193	251,985,000	5,449,069,800	94,635,000	6,396,523,993
Total outstanding	<u>\$620,344,193</u>	<u>\$251,985,000</u>	<u>\$6,015,534,800</u>	<u>\$94,635,000</u>	<u>\$6,982,498,993</u>

## Note 10 Employee Benefits

- a. Plan Descriptions - The Authority participates in the State of Michigan's defined benefit and defined contribution pension plans that cover most State employees, as well as related component units such as the Authority. The defined benefit and defined contribution pension plans are part of the State Employees' Retirement System administered by the Office of Retirement Services, Department of Technology, Management, and Budget. Participants in each plan are eligible for retirement, healthcare, disability, and death benefits upon meeting certain vesting requirements. The State Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report is available on the State's website at <<http://www.michigan.gov/ors>>. The financial report for the defined contribution plan may be obtained by writing to the Office of Retirement Services, Department of Technology, Management, and Budget, 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909 or by calling (517) 322-5103.
- b. Funding Policy - For the defined benefit plan, the Authority was required to contribute at an actuarially determined rate of 50.85% of payroll for pension and other postemployment benefits for fiscal year 2011-12. Effective April 1, 2012, defined benefit plan members are required to contribute 4% of their compensation for pension benefits. For the defined contribution plan, the Authority was required to contribute 4.0% of payroll with an additional match of up to 3.0% for fiscal year 2011-12. The Authority transferred \$1.1 and \$0.1 million to the State for its employer contribution for the defined benefit plan and defined contribution plan, respectively, in fiscal year 2011-12. The contribution requirements of plan members and the Authority are established and may be amended by the State Legislature. The State Legislature establishes the extent to which the employer and employees are required to make contributions and establishes the benefit provisions for the plans.

- c. Postemployment Benefits - The Authority participates in the State of Michigan's postemployment benefits. The cost of retiree healthcare benefits is an allocation calculated by the State of Michigan and funded on a pay-as-you-go basis. The State contributes 90% of healthcare benefits for employees hired on or before March 30, 1997 who participate in either the defined benefit plan or the defined contribution plan and meet certain vesting and other requirements. For employees who were hired after March 30, 1997 through December 31, 2011 who participate in the defined contribution plan and meet certain vesting and other requirements, the State contributes up to 90% of healthcare benefits. Effective January 1, 2013, the State's contribution rate decreases to 80% for all employees hired prior to December 31, 2011.

Employees hired on or after January 1, 2012 receive a personal healthcare fund and receive up to a 2% matching contribution into a 401(k) account if the employee contributes 2% of his or her pay. Also, the employee will receive a credit into a health reimbursement account (HRA) at termination of employment if he or she has at least 10 years of service at termination.

#### Note 11 Revenue From Federal Government

- a. Business-Type Activities and Proprietary Funds

- (1) Student Loan Fund

The USDOE pays the Student Loan Fund an interest subsidy on the subsidized Stafford Loans for the period during which the borrowers are enrolled at an institution of higher education and during a six- to nine-month period after the borrowers have graduated or left school. The interest subsidy for fiscal year 2011-12 totaled \$7.8 million. Additionally, federal legislation provides for a special allowance that is principally an incentive payment made in order that money market conditions and interest rates will not impede the issuance of student loans. The USDOE pays the special allowance, which adjusts the Authority's yield on student loans to a rate related to the average of a 91-day U.S. Treasury bill yield during the quarter or, for loans

disbursed on or after January 1, 2000, a rate related to the average three-month commercial paper yield. The positive special allowance received for fiscal year 2011-12 was \$1.0 million. For loans first disbursed on or after October 1, 2007, the College Cost Reduction and Access Act reduced the special allowance factors and the Deficit Reduction Act of 2005 required that, if the resulting special allowance calculation was negative, the negative special allowance must be paid to the USDOE. The negative special allowance paid for fiscal year 2011-12 totaled \$24.5 million.

(2) Non-Major Fund - Michigan Guaranty Agency - Operating Fund

The Michigan Guaranty Agency - Operating Fund receives federal funds for fees related to defaulted student loans. The account maintenance fee is 0.06% of the original principal amount of outstanding loans for administering the accounts. Also, the Michigan Guaranty Agency - Operating Fund receives federal funds for its share of retention on loan recoveries and loans rehabilitated. For loan recoveries, the retention rate is 16.0%, and for loans rehabilitated, the Michigan Guaranty Authority (MGA) receives 18.5% of principal and 100% of interest and collection costs.

b. Fiduciary Fund - Michigan Guaranty Agency Federal Fund

The Michigan Guaranty Agency Federal Fund includes federal revenue to reimburse the Authority for defaulted loan claims acquired from financial institutions. Defaulted loans consist of loans in which the student defaulted and the unpaid loan has been acquired from the financial institution by MGA and is recorded as a deduction within loan claims in the fiduciary fund. The federal government reimburses MGA between 75% and 100% of defaulted loans based on when the loan was guaranteed and MGA's trigger default rate. The federal revenue is reported as an addition in the fiduciary fund. The federal government has defined the trigger default rate to be the defaulted loan claims presented to the federal government during the federal fiscal year ended September 30, divided by loans in repayment at the beginning of the federal fiscal year, plus certain other adjustments. The trigger default rate for the fiscal year ended September 30, 2012 was 2.53%.

## Note 12 Contingencies

a. Governmental Activities and Tobacco Settlement Fund - Master Settlement Agreement (MSA) and Purchase Agreement

In November 1998, an MSA was entered into by 46 states, 6 other U.S. jurisdictions, and 4 major tobacco companies. The MSA sets forth the schedule and calculations of payments to be made by the tobacco companies to the states. These payments are subject to various adjustments and offsets, some of which could be material.

In calendar years 2006 and 2007, the Michigan Tobacco Settlement Finance Authority and the State entered into purchase agreements to purchase the right, title, and interest in and to 13.34% and 10.77%, respectively, of all TSR that is received by the State that is required under the terms of the MSA and that is payable to the State beginning in calendar years 2008 and 2010, respectively.

Future tobacco settlement collections are contingent upon future tobacco product sales and are subject to various adjustments as outlined in the MSA. Because of the uncertainty of the factors affecting tobacco product sales and the various adjustments, the Authority estimates the amount of tobacco settlement payment that will be received in April of each year based on tobacco product sales from the prior calendar year.

As of September 30, 2012, the State of Michigan was in litigation over the application and interpretation of the market share adjustment and diligent enforcement provisions of the MSA. At best, the State of Michigan will avoid any reduction of its tobacco payments. At worst, an entire year's payment can be eliminated through application of the market share adjustment. The net effect of these adjustments on future payments is unclear; therefore, only receivables and deferred revenues that can be reasonably estimated have been recorded for future payments.

b. Fiduciary Fund - Michigan Guaranty Agency Federal Fund

MGA is contingently liable for loans made by financial institutions that qualify for guaranty. The trigger default rate for loans guaranteed by the Authority was below 5% for fiscal year 2011-12. As a result, the federal government's reinsurance rate for defaults for fiscal year 2011-12 was 100% for loans made prior to October 1, 1993, 98% for loans made from October 1, 1993 through September 30, 1998, and 95% for loans made on or after October 1, 1998. In the event of future adverse default experience, MGA could be liable for up to 25% of defaulted loans. While management believes that MGA's expected maximum contingent liability is less than 25% of outstanding guaranteed loans, the maximum contingent liability at 25% was \$691.5 million as of September 30, 2012. Management does not expect that all guaranteed loans could default in one year.

MGA has entered into commitment agreements with all lenders that provide, among other things, that MGA will maintain cash and marketable securities at an amount sufficient to guarantee loans in accordance with the Higher Education Act of 1965, as amended. MGA was in compliance with this requirement as of September 30, 2012.

Note 13 Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The State of Michigan is self-insured and provides coverage to the Authority for these potential losses. Additional information on risk management can be found in the footnotes of the *State of Michigan Comprehensive Annual Financial Report*.

Note 14 Subsequent Events

a. Municipal Bond Fund

On October 18, 2012, the Authority issued \$8.0 million of Local Government Loan Program Revenue Bonds within the Municipal Bond Fund - Local Municipalities Subfund.

b. Public School Academy Facilities Fund

On December 13, 2012, the Authority issued \$2.1 million of Public School Academy State Aid Revenue Notes.

c. Limited Obligation Bonds

On November 14, 2012 and December 20, 2012, the Authority issued limited obligation bonds of \$107.3 million and \$45.0 million, respectively, within the Healthcare Finance Fund.

On October 18, 2012, the Authority issued limited obligation revenue refunding bonds of \$3.3 million within the Public School Academy Facilities Fund.



## REQUIRED SUPPLEMENTARY INFORMATION

MICHIGAN FINANCE AUTHORITY  
General Fund  
Budgetary Comparison Schedule  
For the Fiscal Year Ended September 30, 2012

<u>Statutory/Budgetary Basis</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Beginning budgetary fund balance	\$ 361,592	\$ 361,592	\$ 0
Resources (inflows)			
Tobacco settlement revenue	\$ 351,361	\$ 351,361	\$ 0
Bonds issued	2,086,016	2,086,016	0
Refunding bonds issued	10,427,128	10,427,128	0
Payments from the State of Michigan	1,000,000	1,000,000	0
Miscellaneous	204	204	0
Total resources (inflows)	\$ 13,864,709	\$ 13,864,709	\$ 0
Amount available for uses (outflows)	\$ 14,226,301	\$ 14,226,301	\$ 0
Uses (outflows)	\$ 12,808,950	\$ 12,808,950	\$ 0
Total uses (outflows)	\$ 12,808,950	\$ 12,808,950	\$ 0
Ending budgetary fund balance	\$ 1,417,351	\$ 1,417,351	\$ 0

See accompanying note to required supplementary information.

MICHIGAN FINANCE AUTHORITY  
General Fund  
Budgetary Comparison Schedule  
Budget-to-GAAP Reconciliation  
For the Fiscal Year Ended September 30, 2012

**Sources/inflows of resources**

Actual amount (budgetary basis) available for uses (outflows) from the budgetary comparison schedule	\$ 14,226,301
Differences - Budget to GAAP:	
Budgetary fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	(361,592)
Bonds issued are inflows of budgetary resources but are not revenues for financial reporting purposes	(2,086,016)
Refunding bonds issued are inflows of budgetary resources but are not revenues for financial reporting purposes	<u>(10,427,128)</u>
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance	<u>\$ 1,351,565</u>

**Uses/outflows of resources**

Actual amount (budgetary basis) total uses (outflows) from the budgetary comparison schedule	<u>\$ 12,808,950</u>
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance	<u>\$ 12,808,950</u>

## Note to Required Supplementary Information

### Note 1 Statutory/Budgetary Presentation

The Tobacco Settlement Fund enabling legislation, Act 226, P.A. 2005, and the Unemployment Obligation Assessment Fund enabling legislation, Act 267, P.A. 2011, provide for the Authority to engage the services of financial advisors and experts, legal counsel, placement agents, underwriters, appraisers and other advisors, consultants, and fiduciaries as may be necessary to effectuate the purposes of the acts. The Michigan Finance Authority bond official statements establish authorization to pay applicable administrative expenditures.

The budgetary comparison schedule presents the final budget for fiscal year 2011-12, as well as the actual revenues and other sources (inflows), expenditures (outflows), and fund balance stated on the budgetary basis. The Authority does not estimate revenue for budget purposes, and the Authority is allowed to spend the collected revenue without restrictions. Therefore, the actual revenue reflects the budgeted revenue. There were no changes from the original budget to the final budget.

## SUPPLEMENTAL FINANCIAL STATEMENTS

**MICHIGAN FINANCE AUTHORITY**  
Non-Major Funds - Combining Statement of Net Assets  
As of September 30, 2012

	Michigan Guaranty Agency - Operating Fund	Michigan Finance Authority - Operating Fund	Public School Academy Facilities Fund	Totals
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 21,699,508	\$ 676,824	\$ 6,405,989	\$ 28,782,321
Receivable from federal government	297,857			297,857
Receivable from other funds	1,383,735	428,131		1,811,866
Interest receivable	418,777		86,342	505,119
Investments	5,004,492	15,250,421	10,796	20,265,709
Notes receivable			33,916,000	33,916,000
Other current assets		635,987		635,987
Total current assets	<u>\$ 28,804,369</u>	<u>\$ 16,991,362</u>	<u>\$ 40,419,126</u>	<u>\$ 86,214,857</u>
Noncurrent assets:				
Investments	1,037,716	\$	\$	\$ 1,037,716
Deferred charges/financing costs, net			306,823	306,823
Total noncurrent assets	<u>\$ 1,037,716</u>	<u>\$ 0</u>	<u>\$ 306,823</u>	<u>\$ 1,344,539</u>
Total assets	<u>\$ 29,842,085</u>	<u>\$ 16,991,362</u>	<u>\$ 40,725,950</u>	<u>\$ 87,559,397</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and other liabilities	\$	\$	\$ 3,900	\$ 3,900
Bonds and notes payable, net			40,550,000	40,550,000
Interest payable			45,485	45,485
Compensated absences	6,370	50,964		57,334
Total current liabilities	<u>\$ 6,370</u>	<u>\$ 50,964</u>	<u>\$ 40,599,385</u>	<u>\$ 40,656,719</u>
Noncurrent liabilities:				
Compensated absences	\$ 325,640	\$ 189,541	\$	\$ 515,181
Total noncurrent liabilities	<u>\$ 325,640</u>	<u>\$ 189,541</u>	<u>\$ 0</u>	<u>\$ 515,181</u>
Total liabilities	<u>\$ 332,010</u>	<u>\$ 240,505</u>	<u>\$ 40,599,385</u>	<u>\$ 41,171,900</u>
<b>NET ASSETS</b>				
Unrestricted	\$	\$ 16,750,857	\$ (6,279,424)	\$ 10,471,432
Restricted	<u>29,510,075</u>		<u>6,405,989</u>	<u>35,916,064</u>
Total net assets	<u>\$ 29,510,075</u>	<u>\$ 16,750,857</u>	<u>\$ 126,565</u>	<u>\$ 46,387,497</u>
Total liabilities and net assets	<u>\$ 29,842,085</u>	<u>\$ 16,991,362</u>	<u>\$ 40,725,950</u>	<u>\$ 87,559,397</u>

**MICHIGAN FINANCE AUTHORITY**

Non-Major Funds - Combining Statement of Revenues, Expenses, and Changes in Net Assets  
For the Fiscal Year Ended September 30, 2012

	Michigan Guaranty Agency - Operating Fund	Michigan Finance Authority - Operating Fund	Public School Academy Facilities Fund	Totals
<b>OPERATING REVENUES</b>				
Federal revenue:				
Loan recoveries	\$ 3,750,878	\$	\$	\$ 3,750,878
Loans repurchased and rehabilitated	14,073,138			14,073,138
Account maintenance	1,699,764			1,699,764
Interest revenue			932,655	932,655
Investment income		(6,443)	1,083	(5,360)
Fees:				
Default aversion	966,783			966,783
Authority		2,186,094		2,186,094
Miscellaneous	2,095,411		3,500	2,098,911
Total operating revenues	<u>\$ 22,585,974</u>	<u>\$ 2,179,652</u>	<u>\$ 937,238</u>	<u>\$ 25,702,864</u>
<b>OPERATING EXPENSES</b>				
Interest and principal on bonds and notes	\$	\$	\$ 491,901	\$ 491,901
Amortization on deferred charges/financing costs			425,039	425,039
Other administrative expense	15,886,047	1,551,884	1,885,633	19,323,564
Total operating expenses	<u>\$ 15,886,047</u>	<u>\$ 1,551,884</u>	<u>\$ 2,802,573</u>	<u>\$ 20,240,504</u>
Operating income (loss)	<u>\$ 6,699,927</u>	<u>\$ 627,767</u>	<u>\$ (1,865,335)</u>	<u>\$ 5,462,359</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Other	\$ 132,441	\$	\$	\$ 132,441
Total nonoperating revenues (expenses)	<u>\$ 132,441</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 132,441</u>
Income (loss) before transfers	<u>\$ 6,832,368</u>	<u>\$ 627,767</u>	<u>\$ (1,865,335)</u>	<u>\$ 5,594,800</u>
<b>TRANSFERS</b>				
Transfers from other funds	\$	\$ 172,748	\$	\$ 172,748
Transfers to other funds			(19,899)	(19,899)
Total transfers	<u>\$ 0</u>	<u>\$ 172,748</u>	<u>\$ (19,899)</u>	<u>\$ 152,849</u>
Change in net assets	\$ 6,832,368	\$ 800,515	\$ (1,885,234)	\$ 5,747,649
Net assets - Beginning of fiscal year	<u>22,677,707</u>	<u>15,950,342</u>	<u>2,011,799</u>	<u>40,639,848</u>
Net assets - End of fiscal year	<u><u>\$ 29,510,075</u></u>	<u><u>\$ 16,750,857</u></u>	<u><u>\$ 126,565</u></u>	<u><u>\$ 46,387,497</u></u>

**MICHIGAN FINANCE AUTHORITY**  
**Non-Major Funds - Combining Statement of Cash Flows**  
**For the Fiscal Year Ended September 30, 2012**

	Michigan Guaranty Agency - Operating Fund	Michigan Finance Authority - Operating Fund	Public School Academy Facilities Fund	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Bonds, notes, and loans receivable made	\$	\$	\$ (47,492,695)	\$ (47,492,695)
Principal received on bonds, notes, and loans			51,034,500	51,034,500
Interest received on bonds, notes, and loans			946,907	946,907
Cash payments to employees and suppliers for goods and services	(17,558,832)	(2,021,272)	(1,885,633)	(21,465,736)
Other operating revenues	24,868,599	2,518,498		27,387,096
Net cash provided by (used in) operating activities	\$ 7,309,767	\$ 497,226	\$ 2,603,079	\$ 10,410,072
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Proceeds from sale of bonds and notes, net	\$	\$	\$ 44,195,000	\$ 44,195,000
Payment of bond issue costs			(373,339)	(373,339)
Principal paid on bonds and notes			(51,470,000)	(51,470,000)
Interest paid on bonds and notes			(500,920)	(500,920)
Other	(3,282)	252,748	(300,372)	(50,906)
Net cash provided by (used in) noncapital financing activities	\$ (3,282)	\$ 252,748	\$ (8,449,630)	\$ (8,200,164)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Net (purchases of) proceeds from sale and maturities of investment securities	\$ (42,208)	\$ (454,408)	\$ 275,755	\$ (220,861)
Interest and dividends on investments	78,191	1,575	1,083	80,848
Net cash provided by (used in) investing activities	\$ 35,983	\$ (452,833)	\$ 276,837	\$ (140,013)
Net increase (decrease) in cash	\$ 7,342,468	\$ 297,141	\$ (5,569,714)	\$ 2,069,895
Cash and cash equivalents - Beginning of fiscal year	14,357,041	379,683	11,975,703	26,712,427
Cash and cash equivalents - End of fiscal year	\$ 21,699,508	\$ 676,824	\$ 6,405,989	\$ 28,782,321
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 6,699,927	\$ 627,767	\$ (1,865,335)	\$ 5,462,359
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Investment income		6,443	(1,083)	5,360
Other income			(3,500)	(3,500)
Interest expense			491,901	491,901
Amortization of deferred charges			425,039	425,039
Changes in assets and liabilities:				
(Increase) Decrease in other receivables	603,282	(95,727)	14,252	521,807
Increase (Decrease) in other payables	6,558	(41,257)		(34,699)
(Increase) Decrease in bonds, notes, and loans receivable			3,541,805	3,541,805
Net cash provided by (used in) operating activities	\$ 7,309,767	\$ 497,226	\$ 2,603,079	\$ 10,410,072

## SUPPLEMENTAL FINANCIAL SCHEDULES

**MICHIGAN FINANCE AUTHORITY**  
Municipal Bond Fund - Combining Supplemental Schedule of Net Assets  
As of September 30, 2012

	Local Municipalities Subfund	State Revolving Subfund	
		Clean Water Program	Drinking Water Program
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 945,265	\$ 2,769,525	\$ 42,605
Receivable from federal government		132,872	83,459
Receivable from primary government		870,000	
Interest receivable	30,277,846	2,236,109	810,083
Investments	3,298,868	753,104,204	236,390,854
Notes receivable	666,698,691		
Loans receivable, net	36,475,768	150,712,741	28,478,356
Bonds receivable	100,184,640		
Other current assets			93,200
Total current assets	<u>\$ 837,881,078</u>	<u>\$ 909,825,450</u>	<u>\$ 265,898,558</u>
Noncurrent assets:			
Receivable from primary government	\$	\$ 2,180,000	\$
Interest receivable	30,085,107		
Investments	20,915,551	677,801,699	102,886,418
Loans receivable, net	367,417,847	1,790,742,721	386,709,035
Bonds receivable	737,522,305		
Deferred charges/financing costs, net	15,305,195	11,170,902	1,387,718
Total noncurrent assets	<u>\$ 1,171,246,006</u>	<u>\$ 2,481,895,322</u>	<u>\$ 490,983,171</u>
Total assets	<u>\$ 2,009,127,084</u>	<u>\$ 3,391,720,773</u>	<u>\$ 756,881,729</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and other liabilities	\$ 191,429	\$ 509,934	\$ 76,916
Bonds and notes payable, net	833,601,416	104,395,000	16,405,000
Interest payable	24,198,761	40,978,837	5,340,163
Arbitrage payable		4,785,796	
Total current liabilities	<u>\$ 857,991,606</u>	<u>\$ 150,669,566</u>	<u>\$ 21,822,079</u>
Noncurrent liabilities:			
Bonds and notes payable, net	\$ 1,150,131,597	\$ 1,749,223,227	\$ 223,422,659
Arbitrage payable		3,076,701	477,720
Total noncurrent liabilities	<u>\$ 1,150,131,597</u>	<u>\$ 1,752,299,927</u>	<u>\$ 223,900,378</u>
Total liabilities	<u>\$ 2,008,123,203</u>	<u>\$ 1,902,969,494</u>	<u>\$ 245,722,457</u>
<b>NET ASSETS</b>			
Unrestricted	\$ 1,003,880	\$	\$
Restricted:			
Water pollution control and drinking water projects		1,488,751,279	511,159,271
Strategic Water Quality Initiatives Fund			
School Loan Revolving Fund			
Total net assets	<u>\$ 1,003,880</u>	<u>\$ 1,488,751,279</u>	<u>\$ 511,159,271</u>
Total liabilities and net assets	<u>\$ 2,009,127,084</u>	<u>\$ 3,391,720,773</u>	<u>\$ 756,881,729</u>

Strategic Water Quality Initiatives Subfund	School Loan Revolving Subfund	Totals
\$ 3,783,340	\$ 213,421,427	\$ 220,962,162
		216,331
		870,000
	1,534,098	34,858,135
21,122,312	28,002,434	1,041,918,671
		666,698,691
715,000		216,381,865
		100,184,640
		93,200
<u>\$ 25,620,652</u>	<u>\$ 242,957,958</u>	<u>\$ 2,282,183,696</u>
\$	\$ 1,024,335,181	\$ 1,026,515,181
		30,085,107
	70,498,464	872,102,132
12,442,756		2,557,312,358
		737,522,305
	2,467,969	30,331,785
<u>\$ 12,442,756</u>	<u>\$ 1,097,301,614</u>	<u>\$ 5,253,868,869</u>
<u>\$ 38,063,408</u>	<u>\$ 1,340,259,572</u>	<u>\$ 7,536,052,565</u>
\$ 129,114	\$ 538,557	\$ 1,445,950
		954,401,416
	494,300	71,012,061
		4,785,796
<u>\$ 129,114</u>	<u>\$ 1,032,857</u>	<u>\$ 1,031,645,223</u>
\$	\$ 531,394,266	\$ 3,654,171,748
		3,554,420
<u>\$ 0</u>	<u>\$ 531,394,266</u>	<u>\$ 3,657,726,168</u>
\$ 129,114	\$ 532,427,123	\$ 4,689,371,391
\$	\$	\$ 1,003,880
		1,999,910,550
37,934,294		37,934,294
	807,832,449	807,832,449
<u>\$ 37,934,294</u>	<u>\$ 807,832,449</u>	<u>\$ 2,846,681,174</u>
<u>\$ 38,063,408</u>	<u>\$ 1,340,259,572</u>	<u>\$ 7,536,052,565</u>

MICHIGAN FINANCE AUTHORITY

Municipal Bond Fund - Combining Supplemental Schedule of Revenues, Expenses, and Changes in Net Assets  
For the Fiscal Year Ended September 30, 2012

	Local Municipalities Subfund	State Revolving Subfund	
		Clean Water Program	Drinking Water Program
<b>OPERATING REVENUES</b>			
Federal revenue	\$	\$ 372,363	\$ 227,829
Interest revenue	77,288,004	43,932,508	9,913,600
Investment income	593,571	47,752,168	8,369,471
Miscellaneous	9,545		4,400
Total operating revenues	<u>\$ 77,891,120</u>	<u>\$ 92,057,038</u>	<u>\$ 18,515,300</u>
<b>OPERATING EXPENSES</b>			
Arbitrage expense	\$	\$ 5,782,848	\$ 502,872
Interest expense	71,067,133	68,824,864	9,529,454
Amortization on deferred charges/financing costs	9,595,642	1,389,170	209,423
Other administrative expense		722,508	209,715
Total operating expenses	<u>\$ 80,662,775</u>	<u>\$ 76,719,390</u>	<u>\$ 10,451,464</u>
Operating income (loss)	<u>\$ (2,771,654)</u>	<u>\$ 15,337,649</u>	<u>\$ 8,063,835</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Operating subsidies	\$	\$ 13,313,126	\$ 29,191,000
American Recovery and Reinvestment Act principal forgiveness expense		(2,212,247)	977,854
Grant expense			
Other		(6,659,972)	(6,403,934)
Total nonoperating revenues (expenses)	<u>\$ 0</u>	<u>\$ 4,440,907</u>	<u>\$ 23,764,920</u>
Income (loss) before transfers	<u>\$ (2,771,654)</u>	<u>\$ 19,778,556</u>	<u>\$ 31,828,755</u>
<b>TRANSFERS</b>			
Transfers from other funds	\$	\$	\$
Transfers to other funds	(152,849)		
Total transfers	<u>\$ (152,849)</u>	<u>\$ 0</u>	<u>\$ 0</u>
Change in net assets	\$ (2,924,503)	\$ 19,778,556	\$ 31,828,755
Net assets - Beginning of fiscal year	<u>3,928,383</u>	<u>1,468,972,723</u>	<u>479,330,516</u>
Net assets - End of fiscal year	<u>\$ 1,003,880</u>	<u>\$ 1,488,751,279</u>	<u>\$ 511,159,271</u>

Strategic Water Quality Initiatives Subfund	School Loan Revolving Subfund	Totals
\$	\$	\$ 600,192
269,106	32,649,178	164,052,395
858	7,121,547	63,837,615
		13,945
<u>\$ 269,964</u>	<u>\$ 39,770,724</u>	<u>\$ 228,504,146</u>
\$	\$	\$ 6,285,720
	6,213,030	155,634,481
	146,736	11,340,971
397,795	5,155,350	6,485,368
<u>\$ 397,795</u>	<u>\$ 11,515,116</u>	<u>\$ 179,746,540</u>
\$ (127,832)	\$ 28,255,608	\$ 48,757,606
\$ 24,424,679	\$ 237,329,695	\$ 304,258,500
		(1,234,393)
(11,577,350)		(11,577,350)
		(13,063,906)
<u>\$ 12,847,329</u>	<u>\$ 237,329,695</u>	<u>\$ 278,382,851</u>
<u>\$ 12,719,496</u>	<u>\$ 265,585,303</u>	<u>\$ 327,140,456</u>
\$	\$	\$ 0
		(152,849)
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (152,849)</u>
\$ 12,719,496	\$ 265,585,303	\$ 326,987,607
25,214,798	542,247,146	2,519,693,567
<u>\$ 37,934,294</u>	<u>\$ 807,832,449</u>	<u>\$ 2,846,681,174</u>

MICHIGAN FINANCE AUTHORITY  
Municipal Bond Fund - Combining Supplemental Schedule of Cash Flows  
For the Fiscal Year Ended September 30, 2012

	Local Municipalities Subfund	State Revolving Subfund	
		Clean Water Program	Drinking Water Program
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Bonds, notes, and loans receivable made	\$ (1,322,089,681)	\$ (125,529,261)	\$ (31,980,448)
Principal received on bonds, notes, and loans	1,344,869,794	150,656,039	26,582,903
Interest received on bonds, notes, and loans	85,403,104	43,932,508	9,913,600
Cash payments to employees and suppliers for goods and services		(8,863,891)	(554,595)
Other operating revenues		903,405	200,081
Net cash provided by (used in) operating activities	\$ 108,183,217	\$ 61,098,799	\$ 4,161,541
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Proceeds from sale of bonds and notes, net	\$ 1,326,104,438	\$ 106,812,524	\$ (17,413,016)
Payment of bond issue costs	(2,917,745)	(1,471,828)	(372,087)
Principal paid on bonds and notes	(1,335,170,898)	(102,110,000)	(16,140,000)
Interest paid on bonds and notes	(95,208,362)	(84,297,192)	(12,608,421)
Operating subsidies		8,081,797	26,824,013
American Recovery and Reinvestment Act principal forgiveness expense		5,252,183	2,366,987
Grant expense		(8,893,073)	(5,426,080)
Other	(152,849)		
Net cash provided by (used in) noncapital financing activities	\$ (107,345,416)	\$ (76,625,589)	\$ (22,768,605)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net (purchases of) proceeds from sale and maturities of investment securities	\$ (481,815)	\$ (27,374,033)	\$ 11,539,724
Interest and dividends on investments	584,851	45,665,566	7,098,829
Net cash provided by (used in) investing activities	\$ 103,036	\$ 18,291,533	\$ 18,638,554
Net increase (decrease) in cash	\$ 940,837	\$ 2,764,744	\$ 31,490
Cash and cash equivalents - Beginning of fiscal year	4,428	4,781	11,116
Cash and cash equivalents - End of fiscal year	\$ 945,265	\$ 2,769,525	\$ 42,605
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ (2,771,654)	\$ 15,337,649	\$ 8,063,835
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Investment income	(593,571)	(47,752,168)	(8,369,471)
Other income	(9,545)		
Interest expense	71,067,133	68,824,864	9,529,454
Amortization of deferred charges	9,595,642	1,389,170	209,423
Changes in assets and liabilities:			
(Increase) Decrease in other receivables	5,294,440	1,882,514	(32,148)
Increase (Decrease) in other payables		(1,800,007)	157,993
(Increase) Decrease in bonds, notes, and loans receivable	25,600,772	23,216,778	(5,397,545)
Net cash provided by (used in) operating activities	\$ 108,183,217	\$ 61,098,799	\$ 4,161,541

Strategic Water Quality Initiatives Subfund	School Loan Revolving Subfund	Totals
\$ (2,463,797)	\$ (185,889,777)	\$ (1,667,952,964)
600,000	66,353,246	1,589,061,982
269,106	26,383,578	165,901,895
(339,597)	(5,155,613)	(14,913,696)
		1,103,486
\$ (1,934,289)	\$ (98,308,566)	\$ 73,200,703
\$	\$	\$
	(10,000)	1,415,503,945
		(4,771,659)
		(1,453,420,898)
	(6,015,729)	(198,129,705)
24,424,679	192,536,087	251,866,576
		7,619,170
(11,577,350)		(25,896,503)
		(152,849)
\$ 12,847,329	\$ 186,510,357	\$ (7,381,923)
\$	\$	\$
(7,130,559)	(3,446,612)	(26,893,294)
858	3,857,202	57,207,307
\$ (7,129,701)	\$ 410,591	\$ 30,314,013
\$ 3,783,340	\$ 88,612,382	\$ 96,132,792
	124,809,045	124,829,369
\$ 3,783,340	\$ 213,421,427	\$ 220,962,162
\$	\$	\$
(127,832)	28,255,608	48,757,606
(858)	(7,121,547)	(63,837,615)
		(9,545)
	6,213,030	155,634,481
	146,736	11,340,971
		7,144,806
58,198	(263)	(1,584,080)
(1,863,797)	(125,802,131)	(84,245,922)
\$ (1,934,289)	\$ (98,308,566)	\$ 73,200,703

MICHIGAN FINANCE AUTHORITY  
Student Loan Fund - Combining Supplemental Schedule of Net Assets  
As of September 30, 2012

	<u>Operating Subfund</u>	<u>Bond Subfund</u>	<u>Totals</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 20,354,305	\$ 462,389,759	\$ 482,744,064
Receivable from federal government	845	1,751,437	1,752,282
Interfund receivable	295,905		295,905
Interest receivable	42,253	23,137,922	23,180,175
Investments	9,791,476		9,791,476
Loans receivable, net	1,173,230	164,578,401	165,751,631
Other current assets		695,104	695,104
Total current assets	<u>\$ 31,658,014</u>	<u>\$ 652,552,623</u>	<u>\$ 684,210,637</u>
Noncurrent assets:			
Investments	\$	\$ 500,000	\$ 500,000
Loans receivable, net	8,212,613	1,152,048,805	1,160,261,418
Deferred charges/financing costs, net		8,998,792	8,998,792
Total noncurrent assets	<u>\$ 8,212,613</u>	<u>\$ 1,161,547,597</u>	<u>\$ 1,169,760,210</u>
Total assets	<u>\$ 39,870,627</u>	<u>\$ 1,814,100,220</u>	<u>\$ 1,853,970,847</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and other liabilities	\$ 47,188	\$ 7,950,810	\$ 7,997,998
Bonds and notes payable, net		140,400,000	140,400,000
Interfund payable		295,905	295,905
Interest payable		589,073	589,073
Compensated absences	11,612		11,612
Total current liabilities	<u>\$ 58,800</u>	<u>\$ 149,235,788</u>	<u>\$ 149,294,588</u>
Noncurrent liabilities:			
Bonds and notes payable, net	\$	\$ 1,528,487,632	\$ 1,528,487,632
Arbitrage payable		24,001,730	24,001,730
Compensated absences	182,558		182,558
Total noncurrent liabilities	<u>\$ 182,558</u>	<u>\$ 1,552,489,362</u>	<u>\$ 1,552,671,920</u>
Total liabilities	<u>\$ 241,358</u>	<u>\$ 1,701,725,150</u>	<u>\$ 1,701,966,508</u>
<b>NET ASSETS</b>			
Unrestricted	\$ 31,223,626	\$ 112,375,070	\$ 143,598,696
Restricted	8,405,643		8,405,643
Total net assets	<u>\$ 39,629,269</u>	<u>\$ 112,375,070</u>	<u>\$ 152,004,339</u>
Total liabilities and net assets	<u>\$ 39,870,627</u>	<u>\$ 1,814,100,220</u>	<u>\$ 1,853,970,847</u>

**MICHIGAN FINANCE AUTHORITY**

Student Loan Fund - Combining Supplemental Schedule of Revenues, Expenses, and Changes in Net Assets  
For the Fiscal Year Ended September 30, 2012

	Operating Subfund	Bond Subfund	Totals
<b>OPERATING REVENUES</b>			
Federal revenue, net of special allowance	\$ 2,560	\$ (15,659,429)	\$ (15,656,869)
Interest revenue	279,711	60,875,631	61,155,342
Investment income	9,728	84,564	94,292
Miscellaneous	54,032	7,294,267	7,348,299
Total operating revenues	<u>\$ 346,031</u>	<u>\$ 52,595,033</u>	<u>\$ 52,941,064</u>
<b>OPERATING EXPENSES</b>			
Arbitrage expense	\$	\$ 3,132,953	\$ 3,132,953
Interest expense		(2,759,382)	(2,759,382)
Amortization on deferred charges/financing costs		1,085,055	1,085,055
Bad debt expense	23,499	8,465,570	8,489,069
Other administrative expense	441,165	19,386,400	19,827,565
Total operating expenses	<u>\$ 464,664</u>	<u>\$ 29,310,596</u>	<u>\$ 29,775,260</u>
Operating income (loss)	<u>\$ (118,634)</u>	<u>\$ 23,284,438</u>	<u>\$ 23,165,804</u>
Change in net assets	\$ (118,634)	\$ 23,284,438	\$ 23,165,804
Net assets - Beginning of fiscal year	<u>39,747,903</u>	<u>89,090,632</u>	<u>128,838,535</u>
Net assets - End of fiscal year	<u><u>\$ 39,629,269</u></u>	<u><u>\$ 112,375,070</u></u>	<u><u>\$ 152,004,339</u></u>

MICHIGAN FINANCE AUTHORITY  
Student Loan Fund - Combining Supplemental Schedule of Cash Flows  
For the Fiscal Year Ended September 30, 2012

	Operating Fund	Bond Fund	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Principal received on bonds, notes, and loans	\$ 1,527,252	\$ 295,578,002	\$ 297,105,254
Interest received on bonds, notes, and loans	213,208	49,713,430	49,926,638
Cash payments to employees and suppliers for goods and services	(350,276)	(18,596,941)	(18,947,217)
Other operating revenues	258,481	(24,014,639)	(23,756,158)
	<u>\$ 1,648,665</u>	<u>\$ 302,679,852</u>	<u>\$ 304,328,517</u>
Net cash provided by (used in) operating activities			
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Principal paid on bonds and notes	\$	\$ (349,008,834)	\$ (349,008,834)
Interest paid on bonds and notes		(13,737,918)	(13,737,918)
	<u>\$ 0</u>	<u>\$ (362,746,752)</u>	<u>\$ (362,746,752)</u>
Net cash provided by (used in) noncapital financing activities			
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net (purchases of) proceeds from sale and maturities of investment securities	\$ (3,914,452)	\$	\$ (3,914,452)
Interest and dividends on investments	20,494	78,245	98,739
	<u>\$ (3,893,959)</u>	<u>\$ 78,245</u>	<u>\$ (3,815,714)</u>
Net cash provided by (used in) investing activities			
Net increase (decrease) in cash	\$ (2,245,294)	\$ (59,988,655)	\$ (62,233,949)
Cash and cash equivalents - Beginning of fiscal year	22,599,598	522,378,414	544,978,012
Cash and cash equivalents - End of fiscal year	<u>\$ 20,354,305</u>	<u>\$ 462,389,759</u>	<u>\$ 482,744,064</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ (118,634)	\$ 23,284,438	\$ 23,165,804
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Investment income	(9,728)	(84,564)	(94,292)
Other income		(6,332,774)	(6,332,774)
Interest expense		(2,759,382)	(2,759,382)
Amortization of deferred charges		1,085,055	1,085,055
Changes in assets and liabilities:			
(Increase) Decrease in other receivables	278,632	15,642,512	15,921,144
Increase (Decrease) in other payables	27,679	2,170,986	2,198,665
(Increase) Decrease in bonds, notes, and loans receivable	1,470,715	269,673,581	271,144,296
	<u>\$ 1,648,665</u>	<u>\$ 302,679,852</u>	<u>\$ 304,328,517</u>
Net cash provided by (used in) operating activities			

# INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND COMPLIANCE



STATE OF MICHIGAN  
OFFICE OF THE AUDITOR GENERAL  
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THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

## Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Mr. Andy Dillon, State Treasurer and Chair  
Michigan Finance Authority Board of Directors  
Richard H. Austin Building  
Lansing, Michigan

Dear Mr. Dillon:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Michigan Finance Authority, a discretely presented component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2012, which collectively comprise the Authority's basic financial statements as identified in the table of contents, and have issued our report thereon dated January 8, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

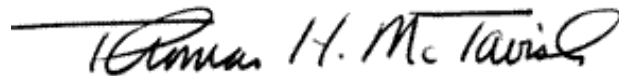
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined in the preceding paragraph.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Governor, the Legislature, the Michigan Finance Authority Board of Directors, management, and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish". The signature is fluid and cursive, with a horizontal line extending from the left side of the name.

Thomas H. McTavish, C.P.A.

Auditor General

January 8, 2013

# GLOSSARY

## Glossary of Acronyms and Terms

American Recovery and Reinvestment Act of 2009 (ARRA)	An economic stimulus package enacted by the 111th United States Congress in February 2009.
Authority	Michigan Finance Authority.
Consolidation Loans	Loans made to borrowers consolidating certain student loans.
deficiency in internal control over financial reporting	The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.
DEQ	Department of Environmental Quality.
FASB	Financial Accounting Standards Board.
FFELP	Federal Family Education Loan Program.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial statements of an audited entity are presented fairly, in all material respects, in conformity with the disclosed basis of accounting.
Fitch Ratings (Fitch)	A credit rating agency that, among other things, provides credit ratings for issuers of certain debt obligations or debt investments.
generally accepted accounting principles (GAAP)	A technical accounting term that encompasses the conventions, rules, guidelines, and procedures necessary to define accepted accounting practice at a particular time; also cited as "accounting principles generally accepted in the United States of America."

Governmental Accounting Standards Board (GASB)	An arm of the Financial Accounting Foundation established to promulgate standards of financial accounting and reporting with respect to activities and transactions of state and local governmental entities.
internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
LARA	Department of Licensing and Regulatory Affairs.
material misstatement	A misstatement in the financial statements that causes the statements to not present fairly the financial position or the changes in financial position or cash flows in conformity with the disclosed basis of accounting.
material weakness in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected, on a timely basis.
MGA	Michigan Guaranty Agency.
MI-LOAN	Michigan Alternative Student Loan.
Moody's Investors Service, Inc. (Moody's)	A credit rating agency that, among other things, provides credit ratings for issuers of certain debt obligations or debt instruments.
MSA	Master Settlement Agreement.

PLUS Loans	Loans made to parents of dependent undergraduates.
significant deficiency in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
Stafford Loans	Educational loans made under FFELP to students.
Standard & Poor's (S&P)	A credit rating agency that, among other things, provides credit ratings for issuers of certain debt obligations or debt instruments.
TSR	tobacco settlement revenue.
unqualified opinion	<p>An auditor's opinion in which the auditor states that:</p> <ul style="list-style-type: none"> <li>a. The financial statements presenting the basic financial information of the audited entity are fairly presented in conformity with the disclosed basis of accounting; or</li> <li>b. The financial schedules and/or financial statements presenting supplemental financial information are fairly stated in relation to the basic financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules and/or financial statements to the extent necessary to form an opinion on the basic financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules and/or financial statements taken by themselves.</li> </ul>
USDOE	U.S. Department of Education.





